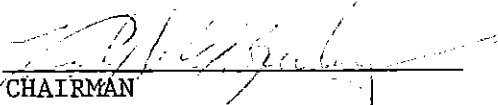


NATIONAL PETROLEUM COUNCIL

I hereby certify that this transcript constitutes an accurate record  
of the meeting of the National Petroleum Council of October 9, 1986.

3-25-87  
DATE

  
CHAIRMAN

TRANSCRIPT  
OF  
THE NATIONAL PETROLEUM COUNCIL

THURSDAY  
OCTOBER 9, 1986

10:00 AM

*DOLLEY*  
DOLLEY MADISON BALLROOM  
THE MADISON HOTEL  
15TH AND "M" STREETS, NW  
WASHINGTON, D.C.

Prepared by:  
My Office In Washington, Inc.  
1425 K Street, NW, Suite 1007  
Washington, DC 20005  
(202) 223-1284



1. CALL TO ORDER:

2.

3. Mr. Ralph E. Bailey,

4. Chairman, National

5. Petroleum Council: Good morning to each of you. We are glad to  
6. see all of you here. Now, will the 91st <sup>16</sup> Meet-  
7. ing of the National Petroleum Council, please  
8. come to order. <sup>P</sup> Ladies and Gentlemen, you have  
9. in front of you a copy of this morning's  
10. agenda. As usual we have a very good turn-  
11. out. <sup>Will</sup> ~~I'm~~ pleased about that, and I suggest  
12. that we dispense with the calling of the roll.  
13. Assuming that there is no objection, the  
14. checking <sup>out in Executive Chamber I</sup> ~~in~~ when you came will serve as the  
15. official attendance record of this meeting.  
16. So if you didn't check-in before ~~when~~ you came  
17. in, I would appreciate it if you'd do so  
18. immediately following adjournment. <sup>P</sup> ~~Now~~ I  
19. <sup>now</sup> would like to introduce the persons seated at  
20. the headtable. <sup>On</sup> ~~To~~ my left is ~~Mr.~~ Ed Cox, Vice  
21. Chairman of the Council; and next to Ed is  
22. Donald Bauer, the Acting Assistant Secretary  
23. for Fossil Energy; next to Don is Jim  
24. Ketelsen, Chairman of the NPC <sup>Committee</sup> ~~Study~~ on U.S.  
25. Oil and Gas Outlook; on my far-right is

1. Marshall Nichols, the Executive Director of  
2. the Council; and next to Marshall is John  
3. McKinley, <sup>NPE</sup>Chairman of the <sup>^</sup>Committee on U.S.  
4. Petroleum Refining. On my immediate right,  
5. the Honorable John S. Herrington and we are  
6. very pleased that the Secretary <sup>has</sup> joined us this  
7. morning, and our first item of business will be  
8. to hear <sup>^</sup>from him. Mr. Secretary. *e*

10. HONORABLE JOHN S. HERRINGTON  
11. SECRETARY OF ~~THE DEPARTMENT~~ OF ENERGY

13. MR. SECRETARY:

13. First, let me say that <sup>of</sup> ~~in~~ all the speeches and  
14. ceremonial invitations we get all year, <sup>^</sup>this  
15. is the one that I look forward to. Because  
16. this group, every since I started working for  
17. President Reagan <sup>back in</sup> ~~in 1980 to 1986~~, this is <sup>the</sup> ~~the~~  
18. group that has always represented the <sup>^</sup>entre-  
19. preneurs and self-starters -- the heart of ~~the~~  
20. American industry and it's good to get back  
21. <sup>in</sup> ~~with~~ a group like this after working <sup>in</sup> ~~for~~ the  
22. government for the last six years. <sup>^</sup>I thought  
23. I'd tell you a short story, <sup>^</sup>this morning. We  
24. just saw the President off to Iceland, some of  
25. you may have been watching it on TV. It's

1. truly history being made. He said two things  
2. this morning that were important. It's time  
3. for Congress to give us a budget and we're not  
4. going to accept any<sup>#</sup>more delay on this. His  
5. second point is that if there (is truly) an  
6. attitude of cooperation on the part of the  
7. General Secretary this time, we'll make some  
8. progress. I think the President is totally  
9. dedicated to this. <sup>#</sup> There was a small town on  
10. a lake<sup>^</sup>. I heard this the other day and I  
11. thought that I would share it with you<sup>^</sup>. And a  
12. young man (was there) named Elmer, who went into  
13. business for himself<sup>and, he</sup>. Since you are all  
14. entrepreneurs and businessmen, I thought you  
15. would appreciate this. But <sup>#</sup> his business was  
16. selling fish to the local restaurant. This is  
17. a little different from what you are doing.  
18. No one had done this successfully in this town  
19. for a long time. Because <sup>thus wasn't</sup> ~~it wasn't~~, they  
20. thought, a lot of fish in the neighboring  
21. lakes. But he was unusually successful<sup>^</sup>  
22. because he had <sup>#</sup> tremendous amounts of fish  
23. coming in every<sup>^</sup>day to the restaurant and the  
24. people enjoyed it for several <sup>Weeks</sup> ~~reasons~~ and <sup>then</sup> they  
25. decided, <sup>"</sup> well, where is he getting this fish? <sup>"</sup>

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on him,

His cousin was the <sup>1c</sup>sheriff <sup>of</sup> ~~in~~ the town and was  
also the <sup>1c</sup>Game <sup>1c</sup>Warden. One day after pressure  
he said to Elmer, "I'd like to go fishing with  
you today." Elmer said, "that would be fine.  
I'd be happy to take you. We're getting up <sup>very</sup>  
early <sup>tomorrow</sup> ~~in the~~ morning." <sup>And</sup> ~~so~~ they headed out, and  
they got <sup>in</sup> the boat on the river and ~~went~~ to a  
place where the <sup>1c</sup>Game <sup>1c</sup>Warden knew, but didn't  
think that it was that crowded with fish. He  
baited his hook with his best <sup>fly</sup> ~~line~~ <sup>made a cast</sup> and waded  
in <sup>to</sup> the pool when over his shoulder came a  
stick of dynamite and landed in the middle of  
the pond and went off. And all <sup>these</sup> ~~of the~~ fish  
floated up to the top of the surface. Well,  
the <sup>1c</sup>sheriff was just dumb <sup>found</sup> ~~founded~~. He turned  
around to Elmer and he said, "Elmer, do you re-  
alize that you just committed a felony?" <sup>And</sup>  
Elmer reached down in his box and he picked up  
a stick of dynamite and <sup>he</sup> lit it and <sup>he</sup> handed it  
to the <sup>1c</sup>sheriff and said, "You <sup>come</sup> <sup>1</sup> here to talk or  
fish?" <sup>So</sup> ~~we~~ came here to talk to <sup>day</sup> ~~day~~. We've  
got a lot to talk about. And this is a very  
<sup>August</sup> ~~ecological~~ group but first I'd like

1. to read a letter from President Reagan to you  
2. and I'm going to present it to Ralph for the  
3. archives. I think it says a lot:

4.  
5. Greetings to everyone gathered here to cele-  
6. brate the 40th Anniversary of the National  
7. Petroleum Council. Since its creation in  
8. 1946, the Council has been an invaluable  
9. source of information and advice regarding the  
10. petroleum industry. The more than 200 reports  
11. prepared by the National Petroleum Council  
12. have provided successive administrations with the  
13. balanced and expert opinions on a wide range  
14. of critical oil and gas issues. In addition,  
15. the Council has exemplified the time honored  
16. American tradition of volunteerism. For 40  
17. years the Councils worked on issues of  
18. national importance that have been funded by  
19. voluntary contributions from its members. I  
20. commend the dedicated efforts of the Members  
21. of the National Petroleum Council for their  
22. tireless work and their devotion to our  
23. country. Nancy joins me in sending you our  
24. best wishes for many more anniversaries. God  
25. bless you.



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Ronald Reagan.

Ralph ~~me~~, *thank you very much.*

*CHAIRMAN BAILLY*

~~MR. CHAIRMAN:~~

~~Thank you very much~~ *You're welcome.*

MR. SECRETARY:

Most books on talks ~~ask~~ *ask* you to lead ~~in~~ *in* care-  
fully into subjects, and ~~to~~ *to* build ~~it~~ *it* up, and get  
to the good stuff at the end. I'm going to

violate ~~that~~ *all those* rule ~~s~~ *s* this morning, ~~I~~ *because* I'm going to

talk about the Oil Import Fee first. ~~This~~ *P* This

idea ~~is~~ *still* in Congress. It's still circulating

in the industry, ~~it's~~ *it's* still circulating in our

*Department, and* ~~part, as well as~~ many other areas of the

government. What I want to get out first is

the Oil Import Fee has a lot of attractive-

ness. Number one ~~for~~ *for* the industry, it raises

the price of domestic oil, obviously, ~~and~~ *and* for

legislators, it has a lot of ~~attractions~~ *attractions*

because it makes ~~them~~ *it* look like they are doing

something. For the people who want it paid

out of the ~~National~~ *of* deficit, it looks like we

are doing something. ~~We're~~ *of* getting taxes ~~too~~ *in...*

help in that area, ~~providing~~ *provided* it doesn't go ~~to the~~ *to the*

~~through the fund.~~ *Superfund* It's a politically

interesting idea. Most of the good things

have been talked about. Help in the domestic

oil industry, which, I think, we'd all admit is

1. in devastation in many areas. Especially in  
2. the oil-producing states. <sup>of you</sup> I raised that in a  
3. meeting in the Oval Office two weeks ago with  
4. number of others <sup>Gramm</sup> subjects. I think each  
5. sponsor of the <sup>Nickles</sup> Graham, McClure, Nicholas,  
6. <sup>Henson Moore, Loeffler, Boulter</sup> Hinson, Miller, Locklear, Bolter Bill had a  
7. chance to invite two or three supporters to  
8. come and talk <sup>with</sup> ~~to~~ the President on the state of  
9. the domestic industry. The President's  
10. remarks in that meeting, and I think you will  
11. agree with me, <sup>perceptive</sup> ~~we~~ were very ~~perceptive~~ on how he  
12. recognized that we are not dealing with a  
13. <sup>free market</sup> ~~pre-market~~ on this particular commodity and  
14. that he is fully cognizant of what the  
15. situation is. <sup>We had</sup> ~~I think that it was~~ a pretty  
16. good presentation and we'll go into some of  
17. that in a minute. <sup>He</sup> ~~He~~ still can't support  
18. <sup>an</sup> ~~the~~ Oil Import Fee and the reason is  
19. this ~~and~~ and the Administration's position can't  
20. change on this <sup>and</sup> ~~I~~ think you as businessmen  
21. businesswomen need to understand <sup>the</sup> ~~the~~ Oil  
22. Import Fee <sup>special</sup> ~~getting~~ through Congress would  
23. have many <sup>special</sup> provisions in it. There is no  
24. question about it. We've gone over these  
25. before in private, a number of us,

*would be*

1. but there ~~are~~ special categories for elderly  
2. Americans who have had trouble paying their  
3. heating bills; for states who use more  
4. gasoline; for farmers, <sup>*we would*</sup> ~~who~~ get into standby  
5. emergency controls. We would get into geo-  
6. graphical differences, northeast verses north-  
7. west. How do I know this? The first <sup>*all proposed this in*</sup> ~~Amend-~~  
8. ments that came in <sup>*on proposals*</sup> ~~on~~ the Oil  
9. Import Fee. <sup>*P*</sup> Let's switch to the international  
10. scene. I guarantee you that an Oil Import Fee  
11. would exempt Canada, our biggest supplier of  
12. <sup>*imported*</sup> ~~foreign~~ oil last year and probably this year,  
13. <sup>*jk*</sup> because of our special trade relationships and  
14. the objections of the Canadian <sup>*jk*</sup> Government. I  
15. guarantee you Mexico would be exempted by the  
16. Congress...Venezuela, Nigeria. I think ~~that~~  
17. there's a strong chance that all countries  
18. that would be destabilized by an Oil Import  
19. Fee would be exempted by ~~the~~ Congress. I  
20. think there's a good chance that Congress  
21. would exempt all countries <sup>*who did*</sup> ~~that would~~ have  
22. difficulty in paying back their loans to the  
23. <sup>*jk*</sup> US Government, <sup>*the IMF, the World*</sup> ~~the United National World~~  
24. Bank would be exempt. Who do we have left?  
25. Libya, and we don't buy any oil from Libya.

1.                     # The Oil Import Fee is not a good idea because  
2.   it would  
3.                     of the bureaucracy that ~~we~~ build in the  
4.   went through  
5.                     government. Those of you who ~~have run into~~  
6.   /k     /k     /k  
7.                     ERA and the Refinery Import Charges and the  
8.   that we are digging our way out of now  
9.                     in the 13th year, know what that was like. It <sup>3</sup><sub>1</sub>  
10.                     was a government program with allocation of...  
11.   that ends up allocating ~~of~~ misery instead of  
12.                     prices and supplies. We're working on that  
13.                     and I'll have more to say about it in a  
14.                     second. The Oil Import Fee for a President  
15.                     who is trying to cut government, who is trying  
16.                     to get away from more government interference  
17.                     in industry and ~~in~~ the private sector, at the  
18.   time when we are running 250-billion-dollar  
19.                     deficits, and a trade deficit that is out of  
20.                     control is a difficult thing to grasp. At a  
21.                     time when our interest rates are down and our  
22.                     economy is doing well and our inflation is  
23.                     down. Nevertheless, we as a government, we as  
24.                     an administration have been doing quite a bit  
25.                     for this oil and gas production industry  
   because we know that this is a part of our  
   National Security, our industrial base. This

1. is an industry that needs to be healthy and  
2. viable. And that brings <sup>me</sup> us to what I would  
3. like to talk to <sup>you</sup> about. <sup>I'd like to</sup> Let's go over some of  
4. the things that I think we have been working  
5. on together in partnership with this industry.  
6. To reiterate, we are ready to do more and want  
7. to do more to make sure that we keep up the  
8. options for this industry. "What is the  
9. <sup>the</sup> Energy policy in the United States?" I am  
10. asked over and over again. When I'm asked by  
11. somebody from an oil-producing state, it  
12. usually means, "Why don't you support the <sup>oil</sup>  
13. <sup>Import Fee?</sup> industry?" or "Why don't you subsidize <sup>strip</sup>  
14. <sup>will</sup> <sup>at</sup> <sup>it</sup> <sup>or</sup> <sup>or</sup> distribute oil production to \$15.00 <sup>or</sup> why  
15. don't you subsidize oil prices?" Again, that's  
16. very hard to do. And especially when we are  
17. telling the farmers of the United States that  
18. we do not support subsidized farm prices. The  
19. <sup>the</sup> <sup>of</sup> Energy Policy in the United States <sup>has been</sup> as we've  
20. printed over and over again <sup>N</sup> is something  
21. called NEPP -- National Energy Policy Plan. A  
22. lot of people have gotten it, probably more  
23. foreigners than people in this country. I  
24. remember sitting at a conference in Vienna  
25. last week and <sup>even</sup> a Russian had a copy of

1. NEPP-5. So he knew more about <sup>our</sup> ~~the~~ energy  
2. policy than <sup>/</sup> I think most of the people in  
3. this country. The general statement in the  
4. ~~energy~~ <sup>policy</sup> is very broad and doesn't tell  
5. you a lot. It says we want adequate supplies  
6. of energy at <sup>a</sup> reasonable costs <sup>/</sup> for this  
7. <sup>the</sup> Country. That's too broad. How does that  
8. <sup>or</sup> effect the oil and gas industry? I'll try to  
9. lay out four areas for you that I think spell  
10. out what we have been doing, and what we can  
11. continue to do. <sup>The first is</sup> ~~one~~ I think this  
12. Administration can lay a foundation for  
13. industry growth that is ~~unshattered~~ <sup>unfettered</sup> by counter-  
14. productive restrictions. I don't think ~~that~~  
15. the devastation in the oil industry is going  
16. to last long term. It came on so violently  
17. and it's beginning to turn around. And I  
18. think all of us agree that <sup>in</sup> ~~by~~ the 1990s, no one  
19. expects to see ~~this~~ <sup>the</sup> situation continue. The  
20. danger that we all see is, do we wipe out the  
21. infrastructure and then have to go back and  
22. rebuild it in the 1990s? <sup>Something</sup> That's ~~not what we don't~~  
23. want to do. One of the things <sup>we can</sup> ~~that we want to~~  
24. do is lay the foundations <sup>/</sup> for this industry's  
25. growth. Number two, I think we can encourage

1. a stronger economic base in this country for  
2. exploration and development. Three, I think  
3. we can expand the opportunities for explora-  
4. tion, <sup>production, trade</sup> ~~reduction~~ and trends. Four, I think we  
5. can build energy security against future  
6. supply <sup>disruptions</sup> ~~destructions~~. <sup>I'll try</sup> ~~I've tried~~ to take each  
7. one of these, one at a time. Let's take the  
8. first one. Laying the foundation for industry  
9. growth <sup>unfettered</sup> ~~unshattered~~ by counter-productive  
10. restrictions. This is a... you'll recognize  
11. some of these programs falling in more than  
12. one category, and <sup>in</sup> ~~and~~ in my judgement, splitting  
13. them <sup>out</sup> ~~up~~, probably <sup>is</sup> ~~not~~ as accurately as you  
14. might want to do with some of them. <sup>What have</sup> ~~What~~  
15. we've accomplished? Well, in the first week  
16. of the Reagan Administration in 1981, the  
17. President accelerated oil and decontrol. I  
18. think that's a major accomplishment. He  
19. followed that by <sup>opposing</sup> ~~imposing~~ the extension of the  
20. gas rationing authority. Coupons that were  
21. printed and in the ~~Department~~, ready to go,  
22. never went. Three, about a year and a half  
23. ago, I got together with FERC and proposed the  
24. elimination of vintaging on the old gas rules.  
25. That was the old Order <sup>451</sup> ~~451~~, and <sup>I</sup> ~~was~~

1. successful in getting that through FERC. Now,  
2. I think that effectively helped us ~~in getting~~  
3. more old gas <sup>i</sup> onto the market. I think that  
4. it's been working very well. About a month  
5. ago, Senator Metzenbaum came after us and tried  
6. to roll that back and prohibited <sup>e</sup> us from using  
7. any funds. We <sup>only</sup> won that vote by one vote.  
8. That was a very difficult challenge to the 451  
9. Order, which I think was good for the industry.  
10. That same fight is going on today. He's com-  
11. ing after <sup>it</sup> us one more time. You have as a  
12. member of the Naional Petroleum Council, now,  
13. one of the most outstanding men in the Admin-  
14. istration. <sup>He's</sup> a welcomed addition to this  
15. Council. <sup>he's</sup> seated over in that corner.  
16. <sup>Ray</sup> Ray, raise your hand. We'll <sup>catch</sup> get to  
17. you later in the day. I think we <sup>went</sup> ~~we've gone~~ a  
18. long way <sup>in accomplishing</sup> ~~to accomplish~~ some of <sup>our</sup> ~~the~~ deregula-  
19. tion goals <sup>to</sup> ~~that have helped~~ <sup>this</sup> industry to get  
20. back <sup>into</sup> ~~to~~ where it should be. We have suspen-  
21. ded, at this time, the production requirements  
22. on marginal wells on federal lands. We're  
23. trying to give some leadership to the states  
24. in this particular area. Work underway. <sup>I</sup>  
25. think <sup>the</sup> most of you have followed <sup>a</sup> comprehensive

who has left,  
Ray O'Connor, who  
was Chairman  
of FERC.

Ray, for those of  
you who haven't  
met him is



1. efforts to have natural gas decontrolled. The  
2. Administration's been pushing it. I believe  
3. that effort is more <sup>successful</sup> ~~susceptible~~ than it was in  
4. 1983 and I'm not about ready to give ~~on~~ it.  
5. It's before Congress. <sup>Again</sup> I think we're going to  
6. go after it again. <sup>1</sup> ~~7~~ Repeal the ~~windfall~~  
7. ~~profits~~ <sup>tax</sup>. <sup>1</sup> We have moved very strongly in  
8. this area. Today...there will probably be a  
9. vote ~~today~~ or tomorrow on the <sup>Graham</sup> ~~Graham~~ Bill,  
10. which some of you have worked on to get this  
11. out of the way. If we believe in ~~the~~ <sup>e</sup> market  
12. policies on the way up, we want to tax this  
13. industry at a very high rate. <sup>1</sup> We ought to be-  
14. lieve in the market <sup>on the way down</sup> ~~moving up~~. <sup>1</sup> It seems logi-  
15. cal to me. <sup>1</sup> Politically, very difficult. <sup>1</sup> You'd  
16. be suprised. <sup>1</sup> We have <sup>underway</sup> ~~on the way~~ in the Admin-  
17. istration that we are coordinating a review of  
18. the Coastal Zone <sup>Management</sup> ~~Energy~~ <sup>1</sup> programs to advance,  
19. what I think is a nationally <sup>interest in</sup> ~~energy~~ exploration  
20. <sup>1</sup> ~~tion~~, development, and production. We're  
21. working with Congress and the Interior Depart-  
22. ment. Those of you who are working off ~~shore~~ <sup>1</sup>  
23. know what the ~~Coastal~~ ~~zone~~ ~~management~~ programs  
24. have done to some of this exploration. <sup>1</sup> We are  
25. reviewing, at this time, the environmental re-

1.                   gulations that effect the petroleum industry.  
2.                   I am working strongly with Lee Thomas at EPA.  
3.                   The <sup>Gramm</sup>~~Graham~~ Bill contains about seven provi-  
4.                   sions on production waste and the elimination  
5.                   <sup>f</sup>~~of~~ regulations on production waste that we've  
6.                   put together with EPA <sup>and with Interior</sup> ~~was interpreted~~ I can  
7.                   talk ~~more~~ <sup>Gramm-Nickles</sup> about ~~the Graham Bill~~ in a second.  
8.                   <sup>H</sup> Number two we've covered the first part in  
9.                   the foundation for <sup>disregulation.</sup> ~~this regulation~~ <sup>Number two:</sup>  
10.                  encourage a stronger economic base for  
11.                  exploration and development. <sup>In</sup> ~~the~~ Tax Bill,  
12.                  I think <sup>we</sup> did not get everything ~~that~~ <sup>we</sup>  
13.                  wanted but we got most of what we requested.  
14.                  <sup>And</sup> ~~But~~ I think the Tax Bill, as it currently  
15.                  stands, is pretty good for the industry. It's  
16.                  not as good as I would have liked <sup>to</sup> have seen  
17.                  it. I will be considering other tax  
18.                  incentives as we go forward in the next three  
19.                  years. I have every intention of being in  
20.                  this job for the next three years and staying  
21.                  with this problem. I think that we will  
22.                  consider a number of areas where <sup>the</sup> government  
23.                  policy on incentive for exploration, <sup>and</sup>  
24.                  development, <sup>and</sup> production can be helpful. The  
25.                  President took a very strong stand, along with

1. the help of a number of you in this room, on  
2. the Gasoline <sup>Disbursement</sup> ~~Enforcement~~ Bill that Senator  
3. Metzenbaum put up recently. I know that <sup>God</sup> ~~Elve~~  
4. Cook and Mar<sup>a</sup>athon and a few others were quite  
5. upset with <sup>us</sup>, but I think <sup>he</sup> you did a very good  
6. job on it. It's still pending on the <sup>bill</sup> ~~hill~~.  
7. *That, as far as I'm concerned.* <sup>we</sup> ~~we~~'re liable to get a favorable vote on <sup>that</sup>.  
8. ~~THE~~ ERA. We have reduced in this Administration,  
9. the <sup>costly</sup> ~~costs~~ of reporting requirements under  
10. ERA. I know for a fact the forms that were  
11. sitting on the shelf in the Department of  
12. Energy, <sup>that</sup> you would have been filling out had  
13. another Administration been in power. They  
14. are substantial. <sup>Well</sup> ~~The~~ Stripper ~~Oil~~ Settlement  
15. Case, this year, I think was a major accom-  
16. plishment. I think together we have settled a  
17. six <sup>6</sup> million dollar state of affairs between  
18. the industry and the government. That case  
19. has...it was very difficult to settle. But <sup>it</sup> ~~we~~  
20. settled the rights and obligations of a great  
21. vast majority in <sup>that</sup> a particular area. It's not  
22. all good news but it gets it out of the way  
23. and <sup>it's</sup> ~~is~~ a big step towards ending the program.  
24. Congressionally it was very difficult, as you  
25. can imagine. ~~THE~~ I would like to see a further

1. resolution of the petroleum overcharge cases  
2. at least by the end of <sup>this</sup> Administration.  
3. I'd like to see the program concluded by 1988.  
4. <sup>an end to</sup> ~~I said all of that on the Hill yesterday~~ <sup>that</sup>  
5. They committed me to either file, drop, or  
6. enter into <sup>telling</sup> ~~towing~~ agreements with all cases.  
7. <sup>1c</sup> So we don't get a new series of cases or new  
8. cases going on in our 13th or 14th year of  
9. this particular program. And <sup>I would</sup> ~~I'd~~ like to see  
10. it wind <sup>down</sup>. I think ~~that~~ we will be suc-  
11. cessful in that, for those of you that are in-  
12. volved. <sup>P</sup> Yesterday, I signed four letters ~~pro~~  
13. <sup>opposing</sup> ~~posing~~ the heavy taxation of the <sup>1c</sup> petroleum <sup>1c</sup> in-  
14. dustry for the <sup>P</sup> superfund. There is a tre-  
15. mendous disproportionate area here in the  
16. minds of the Congress. There's ten percent of  
17. the waste, maybe, that comes out of the petro-  
18. leum industry. The tax burden that <sup>was</sup> ~~is~~ going  
19. to be put on the <sup>P</sup> superfund <sup>P</sup> bill is far in ex-  
20. cess of anything that is justly or rightly de-  
21. served for this industry. I think we can be  
22. successful on that. When we were seeing the  
23. President, <sup>off</sup> <sup>1</sup> I had a discussion with Jim <sup>Miller</sup> ~~Billing~~  
24. the head of OMB, and I said we're going to urge  
25. the President to veto this particular package

1. in any way that we can. And I think that we  
2. can be successful. He <sup>is likewise</sup> ~~was a lot less~~ con-  
3. cerned. <sup>expand</sup> Point three ~~standard~~ opportunities  
4. for exploration, production, and trade. I've  
5. already mentioned the OCS leasing program. I  
6. think we're committed both in the Interior  
7. Department and the Energy Department with a  
8. strong OCS program. We had a little disagree-  
9. ment <sup>here</sup> about a year ago but <sup>I think that's</sup> ~~now it's~~ all worked  
10. out and we're now going to be working in the  
11. same <sup>area</sup> ~~service~~ and <sup>pushing</sup> ~~pushed~~ this. The program for  
12. expanded drilling and ~~amortization~~ <sup>in ANWR,</sup> which I  
13. think <sup>you estimated</sup> a lot of you said ~~the US debated~~ about  
14. 10 billion barrels... <sup>is a</sup> The field up there... I  
15. think ~~this~~ program <sup>is</sup> is very worthy of our sup-  
16. port, <sup>and</sup> attention, and obviously <sup>is</sup> ~~Congres-~~  
17. sional pressure. There's no logical reason  
18. why we should shut <sup>in</sup> a 10 <sup>billion</sup> ~~barrel~~  
19. field in the ~~Continental~~ United States. At  
20. this time, with the conditions <sup>this</sup> of the industry  
21. and our energy dependence, that <sup>our</sup> ~~the~~ imports  
22. are rising <sup>on</sup> today, <sup>in</sup> 1976, they were <sup>2</sup> ~~48~~ percent;  
23. last year, they were 28 percent, and I think  
24. this week we are up to 38 and climbing.  
25. There are no reasons <sup>asset</sup> to shut <sup>in</sup> and ~~off-set~~

1. *like ANWR, and a*  
2. ~~that amortization.~~ The report will be coming  
3. out of Interior *shortly*. The Energy Depart-  
4. ment, along with the rest of the Administration,  
5. will be pushing hard to open this up. Also  
6. other federal ~~lands~~ *lands*. We are looking at ways  
7. to increase our support for R&D ~~as well as re-~~ *in enhanced oil*  
8. covery, also in some of the government areas  
9. that we can be  
10. helpful. *Trade opportunities.* We continue to  
11. support export of Alaskan ~~North Slope~~ *North Slope* oil.  
12. It's very controversial. *The* ~~Big~~ *is* oppositions ~~are~~  
13. coming out of the unions. *I will get* ~~I've got~~ letters  
14. from them...somebody *just* mentioned, *in fact* like today, I  
15. will get letters from Salt Lake City and  
16. Omaha, Nebraska and other dryland countries  
17. that have nothing to do with the ocean or  
18. transportation, who will urge me, on behalf of  
19. the Maritime Union, not to push for ~~the~~ export  
20. of Alaskan ~~North Slope~~ *North Slope* oil. Politically a very  
21. hot issue. The Administration still wants to  
22. see that happen. *On our* ~~You know~~ internationally  
23. relations with Japan and other IEA countries,  
24. we have continued ~~for the~~ *to* push for stock-  
25. building. *I* think this is a big thing. Our  
~~Strategic~~ ~~teaching of~~ petroleum reserve in the United

1. States today ~~despite of the 6 million barrels~~ <sup>is 506 million barrels</sup>  
2. The President ~~still wants the goal~~ <sup>Certainly</sup> reiterated,  
3. his support for the goal of 750 million bar-  
4. rels under the right price ~~series~~ <sup>scenario</sup>. I have the  
5. flexibility now to buy up to 100,000 barrels a  
6. day, and I will be buying that if the price  
7. moves. That's all we can ~~tell you~~ <sup>take at</sup> at this  
8. time. There was a time, a while ago,  
9. when we were able to take about 200,000 bar-  
10. rels a day ~~and stroll~~ <sup>in SPRO</sup>. Today we are only able  
11. to take 100,000 barrels and that's a maximum  
12. ~~purchase~~ <sup>purchasing level</sup>. We have supported the ~~big oil~~ <sup>Big Hill</sup> Texas  
13. improvements to take us on ~~over the~~ <sup>to the ultimate</sup> goal. We  
14. have put out bids for purchase of domestic oil  
15. to cover that now. We have urged other coun-  
16. tries to do likewise as far as the stock-  
17. building. ~~We~~ think that that's an excellent  
18. insurance policy. As we sit here today, under  
19. the current imports we have between ~~a~~ <sup>9</sup> 100 and  
20. 120 days' supply for this country of imports ~~in~~ <sup>and</sup>  
21. about almost three <sup>✓</sup> years of ~~more OPEC~~ <sup>Arab OPEC</sup> protec-  
22. tion in the ground in Louisiana and Texas.  
23. Lastly, we have been building energy security  
24. against future supply ~~disruptions~~ <sup>disruptions</sup>. I think  
25. there have been tremendous dislocations and

1. distortions in the industry. I don't know of  
2. an industry that could stand the dislocations  
3. that <sup>have</sup> ~~has~~ taken place since last November. I  
4. think that it's <sup>to</sup> your credit that you have  
5. been able to weather the storm as well as you  
6. have. A lot of industries have not been able  
7. to. I have <sup>said in Cabinet meetings</sup> ~~signed and had to do~~ recently, <sup>that</sup> and  
8. you're  
9. seeing, I think a number of you, <sup>these</sup> ~~the~~ filings of  
10. Chapter 11, <sup>by the</sup> ~~by the~~ <sup>1/c</sup> ~~Steel~~ <sup>1/c</sup> ~~Industry~~, <sup>1/c</sup> where you <sup>1/c</sup> ~~will~~  
11. ~~would~~ see them go into receivership. <sup>But</sup> ~~what~~ you  
12. don't <sup>read</sup> ~~think~~ about is the outstanding unfunded  
13. pension obligations of those companies that  
14. are being picked up by the off-budget <sup>Benefit</sup> ~~pension~~  
15. <sup>veteran</sup> ~~guarantee~~ <sup>corporation</sup>. It runs into  
16. billions of dollars and <sup>that</sup> ~~it~~ isn't even on the  
17. budget. You add that to <sup>the</sup> ~~the~~ Farm Credit Adminis-  
18. tration, with outstanding off-budget liability  
19. of approximately 83 billion and you begin to  
20. see why that 240-billion-dollar deficit this  
21. year is important. <sup>But if</sup> ~~where~~ you add <sup>up</sup> ~~on~~ the off-  
22. budget items, we have some real problems in  
23. government. <sup>only</sup> ~~moving~~ into more <sup>payments</sup> ~~canvassing~~ for  
24. support <sup>of</sup> ~~in~~ certain industries. <sup>the</sup> ~~the~~ point is  
25. this, <sup>1/c</sup> ~~A~~ lot of industries have not done well



1. in this scenario and you have done <sup>better than some.</sup> ~~very well~~  
2. And you have my admiration for that. <sup>It</sup> We did,  
3. as you remember, <sup>/</sup> last January <sup>/</sup> in California,  
4. we had a situation where for years we had sold  
5. oil <sup>at Elk Hills... the</sup> ~~out in the hills from a~~ petroleum reserve  
6. out there. In January, because of our pricing  
7. structure, we ended up selling that oil at  
8. four dollars less than we <sup>well buying it</sup> ~~bought it~~  
9. <sup>for</sup> the <sup>(2)</sup> strategic <sup>(3)</sup> petroleum <sup>(3)</sup> reserve down in  
10. the Gulf. It was for years a very good pricing  
11. scenario that Congress had put on us and  
12. <sup>the</sup> ~~we had, including~~ taxpayers probably earned  
13. about 300 million dollars on this particular  
14. area. But we caught ourselves in a declining  
15. market and selling into the private sector at  
16. four dollars under what we were buying ~~it~~ for <sup>SPRU</sup>  
17. which was an outrageous situation. We ~~we~~  
18. disrupted the local independents, we ~~we~~  
19. disrupted the local refining industry, and I'm  
20. pleased to say that the August bidding procedure  
21. was different. But we didn't do that  
22. because government knows best. We did it  
23. because of the California Independent Petroleum  
24. Association. A number of you in this  
25. room <sup>/</sup> got together with us and said, "Look,

1. the government's policy of selling cheap oil and  
2. marketing it <sup>at</sup> four dollars under <sup>the</sup> market is not  
3. good for us, to say the least. <sup>So</sup> we were  
4. able to work out a new pricing structure <sup>that</sup> ~~And~~  
5. I think most of them are very happy about ~~that~~  
6. <sup>But</sup> now. <sup>I</sup> don't want to get into that situation ~~again~~  
7. again. So yesterday we contracted to move  
8. 8,000 barrels through the ~~Port Orange~~ <sup>Four Corners</sup> Pipeline  
9. down to SPRO as a test  
10. to see if we could move ~~Gulf Fields~~ <sup>Elk Hills</sup> oil ~~as a~~ <sup>into the</sup>  
11. ~~strategic~~ ~~petroleum~~ ~~reserve~~ <sup>by</sup> land <sup>so</sup> ~~if~~ we  
12. ~~could~~ <sup>can</sup> avoid selling <sup>that</sup> oil <sup>into</sup> ~~to~~ market. Because we  
13. have to sell it by <sup>by</sup> congressional mandate... ~~We~~  
14. bring income into the Treasury. It's a  
15. difficult situation, but I think we can  
16. provide <sup>another</sup> ~~an~~ option for that particular area.  
17. ~~And~~ <sup>And</sup> ~~in~~ all of these measures, standing alone...  
18. things that <sup>I</sup> have been ~~going on with you~~ <sup>doing over</sup>...  
19. standing alone are not much. We're beginning  
20. to look at them as a total picture in what  
21. government is doing in trying to encourage  
22. this industry. You've mentioned the high-  
23. level review of the energy-related security  
24. concerns. <sup>And</sup> ~~You know~~, we're pleased with that  
25. report and I'm really pleased that you've

accelerated this report, so that we could fold that in. As I said, the President is concerned about what is happening in this industry. <sup>7</sup> Lastly, I think I'd like to talk about the <sup>Gramm, Nickles,</sup> ~~Graham, Nichols~~ and McClure Bill. I <sup>Henson Moore and Beau Boulter</sup> might add ~~that also~~ on that ~~is~~ Bill Volter, from Texas. We've got a lot of sponsors for this <sup>1c</sup> Bill. Simple <sup>1c</sup> Bill... <sup>1c</sup> We've been fighting natural gas deregulation, we've been fighting transportation problems, we've been fighting all these things... windfall profits, and we're not getting anywhere. It's hard to say why <sup>my own</sup> ~~no~~ reasons. It's very difficult to work on this today. Finally, we came up recently, two weeks ago, with the <sup>Gramm Nickles</sup> ~~Graham, Nichols~~, McClure Bill. It's very simple. It says we ought to repeal <sup>the</sup> windfall <sup>1</sup> profits <sup>2</sup> tax; that we ought to have natural gas transportation <sup>that's</sup> non-discriminatory <sup>and if there is</sup> ~~after~~ discriminatory transportation, FERC ought to decide whether it's good or bad. <sup>7</sup> We've got two pages of production waste requirements that have been imposed on this industry by EPA that <sup>Lee</sup> ~~are~~ Thomas at EPA agrees are not critical to EPA, but <sup>they</sup> require a lot of administrative effort in this industry.

1. ~~So~~ <sup>and</sup> they ~~burden something~~ <sup>are very burdensome</sup> and they make it  
2. tough to do business. There's a provision in  
3. there to buy 50 percent of domestic oil for  
4. the ~~strategic petroleum industry~~ <sup>Reserve</sup>. I've had  
5. some ~~people in there that~~ <sup>industry</sup> say, "Oh, that's no-  
6. thing. ~~They're~~ <sup>You're</sup> not going to get any." It's  
7. something, it's a start. Last week we  
8. accepted a ~~bid~~ <sup>bid</sup> on 10,000 barrels for the  
9. domestic petroleum reserve and ~~they are doing~~ <sup>we are going</sup>  
10. ~~to buy it at~~ <sup>that one</sup> a contract of about 3.7 million, ~~if~~  
11. <sup>in the</sup> next year. I want to buy more, ~~I~~ <sup>we</sup> need to buy  
12. more to keep the jobs and production up. It  
13. doesn't do anything, this bill. It doesn't do,  
14. by itself, any one provision, but they are all  
15. reasonable things that would help the indus-  
16. try, as a whole. ~~There are~~ <sup>They</sup> reasonable things  
17. that I can't see any elected official should  
18. have an objection to. And I am really disap-  
19. pointed in Congress' inability to deal with  
20. not only the ~~windfall profits tax~~ <sup>like this</sup>, or natural  
21. gas deregulation, but a simple bill that would  
22. take a little pressure off the industry. ~~It~~ <sup>They</sup>  
23. will be voted on today, ~~across~~ <sup>and it's being fought</sup> the board by a  
24. number of ~~Senators~~ <sup>Senators</sup>. There is no possibility  
25. for a simple bill like this, a simple reason-

1.                   like this  
2.           able bill<sup>^</sup> being passed in the House of Repres-  
3.           entatives, and it's going to be very close<sup>^</sup> to  
4.           whether<sup>^</sup> we can get through<sup>^</sup> in the Senate. It's  
5.           an effort by some elected officials from  
6.           producing states to do a lot for this industry  
7.           and there isn't an unreasonable thing in here.  
8.           There was...<sup>^</sup>the Fuel Use Act<sup>^</sup> was in this.  
9.           And we had some objections, if you could  
10.           believe<sup>^</sup> <sup>it, to</sup> ~~that for~~ repealing the  
11.           Fuel Use Act<sup>^</sup> <sup>from</sup> ~~from~~ senators from the coal  
12.           state, who wanted to make sure that we mandated  
13.           a coal <sup>capable</sup> ~~capability~~ on all new boilers being  
14.           built in this country<sup>^</sup> <sup>at</sup> ~~a~~ tremendous <sup>cost</sup> ~~loss~~ to  
15.           that industry. So we took it out. We thought  
16.           that ~~that~~ would take some of the political  
17.           sting out of that particular area. Still it's  
18.           going to have trouble being passed. <sup>^</sup> There is  
19.           a tremendous amount of politics in Congress  
20.           today. Anything we were trying to do for this  
21.           industry, for this business, is turning out to  
22.           be very difficult. It does not mean we will  
23.           not continue. I would like to pledge to you  
24.           our continued support to work as a government  
25.           partnership with this industry. <sup>^</sup> There were a  
             number of you...let's see, I've left out one

On the pricing  
of Elk Hills oil,  
for example,

name. <sup>had</sup> We also have a lot of help from John Bookout and his company in that particular area. <sup>This</sup> It ~~just~~ gives you an idea of the partnership <sup>between</sup> with the government and the industry on some of these problems <sup>where</sup> which the government doesn't always do the best job, but when we get some information from you we do our job a <sup>lot</sup> little better. <sup>Well</sup> Well, I've talked a lot <sup>but</sup> and there's a lot on my mind. Especially at this time and I know that there's a lot on your mind. We're concerned... <sup>I think</sup> I <sup>guess</sup> think that's the message. This is an Administration that probably can't afford or can't support large four and five billion dollar programs to rescue the industry because we don't have that kind of money. It's your money...it's other taxpayer's money. But we are a government that believes in less regulation for a better government, and we're going to continue that program. <sup>I think</sup> And with your help ~~we can~~, perhaps, we'll be able to see a little more daylight on these problems. <sup>Thank</sup> Thank you.

CHAIRMAN BAILEY  
~~MR. CHAIRMAN:~~

The Secretary will take a few questions, if you have them.

1. MR. ~~BRUCE~~ CALDER: Mr. Secretary, you used an acronym that I'm  
2. not familiar with... <sup>ANWR.</sup> ~~OUTLAW OR INLAW~~, what does  
3. that stand for?

4. MR. SECRETARY: <sup>ANWR</sup> ~~ANLAW~~...Arctic National Wildlife Refuge.

5. MR. ~~ERNEST~~ ANGELO: Mr. Secretary, <sup>#</sup> ~~I'm from~~ <sup>Midland,</sup> ~~John,~~  
6. Texas. You know I sympathize very much with  
7. the problems ~~that~~ the Administration has in  
8. getting any of the solutions that you've  
9. mentioned, <sup>readily</sup> through Congress. I ~~greatly~~  
10. understand the difficulty <sup>of</sup> the President  
11. has in supporting the Import Fee, but I think  
12. that the basic problem that I have <sup>with</sup> ~~for~~ this  
13. whole situation is that I hear constantly, if  
14. not in my position as an independent oil oper-  
15. ator, then in my position as a political  
16. representative of the Republican Party, <sup>it</sup> ~~it~~  
17. basically is that the Administration doesn't  
18. seem to have really identified <sup>and</sup> ~~or~~ really com-  
19. mitted itself to believing that this is a  
20. serious problem. That the <sup>domestic petroleum</sup> ~~message from the~~  
21. industry is of extreme importance...the future  
22. of it is of extreme importance to the United  
23. States from the national security standpoint.  
24. And I guess the reason we have trouble believ-  
25. ing <sup>that</sup> ~~it is because~~ the Administration has made

1. that commitment is that if it is of concern<sup>e</sup>  
2. and if it is <sup>of importance</sup> from a national security stand-  
3. point, and we in the industry, know that the  
4. industry<sup>^</sup> itself is fast deteriorating and  
5. that ~~there are~~ certain areas ~~that are~~ disap-  
6. pearing<sup>^</sup>. The infrastructure ~~that~~ you men-  
7. tioned is going to be gone in a fairly short  
8. period of time. <sup>P</sup> The fact that other indust-  
9. ries such as steel are having numerous Chapter  
10. 11 <sup>filings</sup> ~~requirements~~ may be making a bigger  
11. national impact because you are talking about  
12. bigger companies. <sup>But</sup> I see in my relatively  
13. small community <sup>every</sup> day, bankruptcies. And I  
14. don't mean just one or two, but I mean numer-  
15. ous bankruptcies. The industry is dying and I,  
16. as a member of it, feel a need to hear from the  
17. Administration, and from your Department, a  
18. statement that is backed up by some represen-  
19. tation of real concern about the future of the  
20. industry. <sup>P</sup> If we're not necessary <sup>from</sup> ~~for~~ the na-  
21. tional security standpoint, <sup>then</sup> a lot of people  
22. need to know that so that they can move <sup>into</sup> ~~to~~  
23. something else. But if we are, <sup>something</sup> ~~some~~ more needs  
24. to be done, <sup>than</sup> ~~And~~ all of these small things,  
25. everyone of which I've supported and all of



1. which collectively will have some impact. But  
2. even all of them combined, if you could get  
3. them through Congress tomorrow, would not  
4. solve the problem. I don't know the answer  
5. but we've got to have more evidence <sup>than</sup> ~~that~~ the  
6. Administration is <sup>giving</sup> ~~with~~ us.

7. MR. SECRETARY:

8. You know, I've known <sup>Ernie</sup> ~~Earnie~~ for a long time and  
9. I've been hearing this from a lot of people.  
10. I think...I don't think that there's any ques-  
11. tion, <sup>Ernie</sup> ~~that~~ the national security <sup>is</sup> ~~is~~  
12. benefitted <sup>of</sup> ~~by~~ this industry. I don't think  
13. ~~that~~ that's <sup>an</sup> ~~the~~ issue ~~that~~ we're dealing with.  
14. <sup>R</sup> We have report after report to tell us how bad  
15. the situation is and I think ~~that~~ we've talked  
16. about that a lot. I've talked to many <sup>1/c</sup> ~~con-~~  
17. gressman, <sup>E</sup> ~~and I've talked to many~~ representa-  
18. tives from this industry, and delegations. I  
19. know what's happening in schools, ~~that~~ people  
20. <sup>not</sup> are enrolling in <sup>geology</sup> ~~ecology~~ programs, some of them  
21. <sup>I</sup> know what's happening in the <sup>exploration,</sup> ~~excavation~~ ser-  
22. vice <sup>industries and</sup> ~~industry~~, I know what's happening to  
23. independents. I don't think that's a debate  
24. between the Administration. I don't think  
25. that's an open question anymore. <sup>#</sup> ~~They~~ <sup>I think we</sup> know  
the damage. <sup>R</sup> I...we see the unemployment

1. figures in Louisiana. We see the imports  
2. rising, and the question is, what do we do  
3. about it? I think that's the debate. We are  
4. being ~~ranked~~ <sup>harangued</sup> by the industry on this. The  
5. question is, would any other Administration do  
6. anything different? <sup>P</sup> I had a <sup>IC</sup> Congressman call  
7. me from Texas and he said, "You must do some-  
8. thing." I said, <sup>10</sup> "What would you like me to do?"  
9. He said, <sup>11</sup> "I don't know the answer." <sup>12</sup> ~~The~~ <sup>That's the</sup> sen-  
10. tence that you concluded with. That's usually  
11. the concluding  
12. sentence. <sup>13</sup> "I don't know the answer." I said,  
13. <sup>14</sup> "Well, if you don't know what we should do, more  
14. than what we're doing today, <sup>15</sup> how much money  
15. do you think we should spend?" <sup>16</sup> ~~I~~ <sup>And he said,</sup> "I think you've  
16. got to spend between four and five billion  
17. dollars on this industry and you've got to do  
18. it right now." And I said, <sup>19</sup> "Congressman, if we  
19. did that, <sup>20</sup> if we had that money, <sup>21</sup> if we didn't  
20. have a deficit and we didn't have other prob-  
21. lems that we're dealing with, where would I  
22. spend ~~it~~ <sup>that money</sup>?" He said, <sup>23</sup> "I don't know." <sup>24</sup> I said,  
23. <sup>25</sup> "Would you like us to give it out on the  
24. street, <sup>26</sup> would you like to hand it to compa-  
25. nies? Do you want <sup>a</sup> price support money? <sup>27</sup> ~~He~~  
<sup>What do you want?</sup>"  
31

1. He said, "I don't know." We're getting too many  
2. "I DON'T KNOW" for answers. I need to know  
3. from this industry what we <sup>of</sup> the government  
4. can do to help and support. I don't think we  
5. have all the answers. I have pushed very hard  
6. for ~~the~~ <sup>this</sup> natural gas deregulation and I think  
7. ~~that~~ you understand that if we ~~move it~~ <sup>will</sup> suc-  
8. cessfully, ~~we will~~ <sup>we would</sup> get about three trillion cubic  
9. feet ~~for us~~ <sup>more</sup> in the marketplace. The indepen-  
10. dents ~~would~~ <sup>have</sup> come to me and ~~saying~~ <sup>saying</sup> "Look we can't  
11. get our gas to ~~market~~ <sup>market</sup>; ~~so we push them~~ <sup>we're pushed</sup> very  
12. hard for open access to pipelines against ~~the~~ <sup>a lot of</sup>  
13. pipeline opposition. A lot of groups have  
14. come in saying, "you're doing the wrong thing,  
15. these pipelines are wonderful. We're making  
16. 22 percent on our investment, but ~~we're trans-~~ <sup>the independents</sup>  
17. ~~acting~~ <sup>are acting</sup> ~~fering~~ <sup>fering</sup>. We're taking things <sup>one</sup> at a time  
18. ~~and~~ <sup>we're</sup> pushing ~~them~~ <sup>Ernie</sup> very hard in Congress. ~~Earnie~~  
19. if there's something else that this Admini-  
20. stration should do, <sup>an</sup> short of <sup>an</sup> Oil Import Fee <sup>or</sup>  
21. subsidizing oil prices, I don't know what it  
22. is. But I'd like to hear about it because I  
23. think ~~it will~~ <sup>we can</sup> be helpful.  
24. ~~I'm~~ <sup>Mae</sup> McLean, ~~I'm~~ <sup>I'm</sup> an independent from Lafa-  
25. yette, Louisiana. You just mentioned Louisi-

1. ana and I ~~just~~ want to bring up that, ~~import~~  
2. *Unfortunately,* ~~and~~ <sup>a state that's based</sup> we're faced with ~~losing~~ our whole  
3. <sup>on the oil business</sup> economy ~~in New Orleans~~. We're going down the  
4. drain very rapidly. <sup>Ernie</sup> Following what ~~Ernie~~  
5. just said, I totally agree. I think what  
6. <sup>Ernie</sup> ~~Ernie~~ was trying to say and what <sup>I'd like</sup> ~~I want~~ to  
7. articulate, if I can, is maybe we don't have  
8. solutions right now. <sup>I</sup> I understand the secu-  
9. <sup>policy that is</sup> rity ~~problems~~. The security, <sup>groups are working on,</sup> ~~right now,~~ <sup>workse</sup>  
10. from the standpoint of security, for the  
11. President. The <sup>Gramm-Rudman</sup> ~~Graham-Ruddman~~ thing <sup>and</sup> ~~and~~ all  
12. these things  
13. that are working towards various solutions.  
14. <sup>I</sup> What we need right now, more than anything  
15. else, is for this Administration, the Presi-  
16. dent, the Secretary of Energy to articulate  
17. our problems publically. Articulate it day in  
18. and day out. That <sup>will</sup> ~~would~~ serve <sup>two</sup> ~~its~~ purposes.  
19. Number one, it might give us a little heart.  
20. It might help us in preserving a little bit of  
21. what infrastructure is left, <sup>number one,</sup> ~~re~~ Number two, it  
22. might eventually convince the consumer/public  
23. that we are vital to national security and  
24. that we do play a very important role and that  
25. something has to be done to this domestic

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industry before it goes down the drain. At  
the same time, <sup>you're convincing</sup> you can convince the consumer/  
public, maybe <sup>it will begin to</sup> we can get through to Congress.

¶ What I'm saying is, in lieu of a solution, <sup>other than</sup> at  
this point. And I have a couple of others ~~in~~  
<sup>file</sup> ~~import~~ <sup>file</sup> fees in my briefcase that I intend to  
pass along to Jim Ketelsen after the meeting  
is over. But in lieu of a solution, in lieu  
of even any suggestions on our part, I  
strongly suggest, and I think that's what  
<sup>Ernie</sup> ~~Ernie~~ was trying to get at, that it is, at  
least articulated by this

1. Administration.

2. MR. MITCHELL: Mr. Secretary, if you say, <sup>what</sup> ~~what~~ should we

3. do? <sup>we</sup> ~~we~~ have to go back to some background

4. that I've been involved in for the last <sup>40 some years.</sup> ~~me~~ I'm

5. George Mitchell. <sup>I</sup> ~~I~~ I'm from Mitchell Energy and

6. Development Corporation. I've been involved

7. in the drilling of 6,000 wells <sup>and approximately 1,000</sup> ~~or 6,000~~ wild-

8. cats. Also, I <sup>was</sup> ~~am~~ the head of <sup>TIPRO, the Texas Independent</sup> ~~Petroleum Tech Inc~~

9. <sup>Producers,</sup> ~~Texas and been a producer~~ for six years. So I

10. have some knowledge of the industry and what

11. should be done and I think I can speak on it.

12. <sup>If</sup> We have the geological potential <sup>to drill</sup> ~~for~~ 100,000

13. wells <sup>a</sup> ~~per~~ year. And you are destroying the

14. infrastructure that took us from '73 to '81 to

15. build up 4,500 rigs. It took us eight years

16. to do that. If you start over again now, it

17. ~~would take us~~ <sup>it</sup> ~~three~~ to four years to ~~rebuild~~

18. the infrastructure. And <sup>you'll</sup> ~~you~~ find more gas;

19. you won't find <sup>the</sup> ~~more~~ oil in this <sup>nation</sup> ~~situation~~.

20. And you're going to <sup>be at</sup> ~~have~~ 10 million barrels ~~too~~

21. <sup>of imports</sup> ~~have imported~~ by '90 or '91, no matter what

22. anyone says here today. <sup>If</sup> If we're not a secu-

23. rity risk, we <sup>ought</sup> ~~want~~ to know about it. <sup>because</sup> ~~that's~~

24. the only thing that's going to turn this thing

25. around. The Administration's <sup>policy</sup> ~~policy~~ isn't

1. going to turn it around. Don't think it's  
2. going to turn around for any of us. And even  
3. the major companies which are ~~really~~ *really*  
4. present, in a way, ~~the~~ <sup>an</sup> import ~~companies~~ *company being*  
5. controlled by the government. I can under-  
6. stand after 40 years in ~~the business~~ *petroleum the problems* ~~that we~~  
7. ~~have to live by~~ *they have with* the government. But if we  
8. don't really see how we're going to get the  
9. 100,000 wells <sup>a year</sup> we're not going to turn this  
10. thing around. <sup>And, it could be</sup> ~~as if it was~~ equal to half of  
11. that, it would take us 10 years to do this ~~and~~ *after you're turned*  
12. ~~you'd turn~~ the industry around. It would take  
13. us 14 years to substitute <sup>for half</sup> the oil you're going  
14. to be importing. That's a very serious pro-  
15. blem. <sup>if it's</sup> ~~it's~~ not a security risk or an economic  
16. risk, we want to know about it. Then we have  
17. to do something else. <sup>ought to</sup> ~~should~~ The Administration  
18. ~~should~~ make a very strong appeal to decide  
19. ~~these~~ <sup>both</sup> issues. The economic <sup>risk and the mini-cartel</sup> and the many  
20. ~~of Saudi, Kuwait, and the Emirates~~ <sup>of Saudi, Kuwait, and the Emirates</sup>  
21. ~~cartell of starting to accumulate the interests~~ <sup>'90-'91</sup>  
22. will drive the price up to \$30 - \$35 by ~~1991~~  
23. no question about that. You're going to have  
24. at least eight percent inflation, <sup>Will go right</sup> ~~directed to~~  
25. ~~through the same cycle that you reported to or that~~ <sup>report in the Outlook report</sup>  
~~that we went through two times already in~~  
~~you went to in '73 and '78. Those two risks,~~

1. the security and the economic risk, must be  
2. identified by this Administration and articu-  
3. lated so we all know where and what we should  
4. do. Should we shut<sup>down</sup> our shops or should  
5. we really go on, depending on whether we are  
6. important to the nation. <sup>There</sup> There is an answer.  
7. The answer is to drill 100,000 wells or more a  
8. year, and you have the geological resources <sup>in this nation</sup> to  
9. do that. <sup>That's what</sup> But most people do not understand.  
10. We have to articulate that <sup>-- to</sup> and get the data  
11. together, <sup>-- and, I</sup> what does it take to do it? Now  
12. the President put a 21 percent <sup>quota</sup> ~~border~~ on  
13. steel. We got all the <sup>tacnrite ore</sup> ~~tacknrite ore~~ that we  
14. need. We got all the steel <sup>capacity</sup> ~~capacity~~ that we  
15. need. We don't have enough oil and gas in  
16. this country that we need. We're already up  
17. to 38 percent. If <sup>you</sup> ~~he~~ puts a quota of 21 per-  
18. cent, <sup>do</sup> ~~on what we need, then~~ how ~~to~~ we get to  
19. it? <sup>and, I</sup> We're already 38 percent. We have to  
20. come up with solutions, <sup>and, I</sup> You have to do it by  
21. getting <sup>into</sup> the geological resource base, and  
22. getting this <sup>industry</sup> ~~interest~~ together, and get going  
23. with it. It'll take us four years to reorga-  
24. nize the industry. It took us eight years  
25. before.



1. MR. SECRETARY: Excuse me, George, before you sit down. I  
2. really agree with everything that you've said.  
3. Now, do you have any tangible suggestion? Sup-  
4. pose we try to articulate all of this...  
5. MR. MITCHELL: Yes, the tangible suggestions. <sup>to</sup> drill  
6. 100,000 wells, it takes 50 billion <sup>of</sup> additional  
7. dollars. <sup>With</sup> 15,000 independents and major  
8. companies to do it. All the things you are  
9. talking about would be very helpful. Windfall  
10. profit removal, gas decontrol, everything.  
11. But it won't be enough. You may get up to  
12. 1200 to 1300 rigs. The only thing that <sup>these</sup>  
13. ~~is~~ going to do <sup>it</sup> is to have some <sup>certainly</sup> circuitry.  
14. Even Texaco can't plan for the year 2010, know-  
15. ing that Saudi and Kuwait can pull the rug  
16. right out from under them again and Exxon  
17. can't either... <sup>if</sup> we don't have certainty <sup>or</sup> ~~that~~  
18. maybe some way of some protection. <sup>You</sup> can  
19. take care of Canada and Mexico by <sup>quotas</sup> ~~voters~~, sir,  
20. <sup>at the world oil price</sup> ~~By oil profits~~, but that won't solve it. The  
21. Canadians were the first who took 400,000 bar-  
22.rels away from us. <sup>Remember</sup> in '78 and '79?  
23. I remember very distinctly. They were the  
24. first ones <sup>with \$4.94</sup> ~~that fought '94~~ for gas prices, too.  
25. So I don't know that we have to do everything

1. that you say we have to do, but I  
2. know that Congress would be very difficult to  
3. work with. <sup>P</sup> I really do think that if the geo-  
4. logical resources <sup>base is</sup> ~~that are~~ here and the <sup>industry</sup> ~~inter~~  
5. ~~est~~ is being decimated, and it is being deci-  
6. mated, I can tell you that from all the rela-  
7. tions that I have with the people in the Texas  
8. area. Then what do we do about it? How do we  
9. get the message <sup>across</sup> ~~out~~? <sup>You</sup> ~~we~~ can do it either by a  
10. tax break, which ~~I don't think~~ <sup>not</sup> we're going to  
11. get. <sup>You</sup> ~~we~~ can do it by an import <sup>either</sup> ~~fee~~ <sup>variable</sup> ~~fee~~ <sup>a</sup> ~~variable~~  
12. fee that <sup>leaves</sup> ~~leaves~~ at 30 dollars. A <sup>least a</sup> ~~10~~-dollar  
13. import <sup>fee</sup> ~~that leaves~~ at 30 dollars, brings on  
14. gas. <sup>is</sup> ~~was~~ is the solution.

15. MR. SECRETARY: I think you're right, <sup>if it's</sup> ~~it's~~ a simple fee.  
16. ~~Just~~ <sup>a</sup> flat across the board <sup>oil</sup> ~~import~~ <sup>fee</sup>  
17. has <sup>a lot of</sup> ~~its~~ attractiveness. <sup>Now how</sup> ~~But what~~ about the  
18. other problems <sup>are posed</sup> ~~that are imposed~~ when you get  
19. to the <sup>12</sup> ~~congressional processing~~ and it starts  
20. to getting cut up in parcels....

21. MR. MITCHELL: Very difficult ~~one~~. If we don't have a secu-  
22. rity risk, an economic risk, we're not going to  
23. get it through the Congress, <sup>unless</sup> ~~unless~~ it's arti-  
24. culatedly said, we're not going to get it  
25. through the Congress, I agree with you. ~~it's~~

1. very difficult and all ~~of~~ these things that  
2. you're doing are important to do in the mean-  
3. time. But what we're doing won't do the job.  
4. I'm just giving it to ~~you~~ from my geological  
5. background. It's necessary and knowing the  
6. industry <sup>I think it's going to have</sup> as I know it, ~~you're going to have~~  
7. to take that <sup>... it's</sup> and ~~you're going to have to take~~  
8. a ~~full moon~~ <sup>bold move.</sup> why did the President put an 21  
9. percent ~~total~~ <sup>quota</sup> on steel? Somebody explain that  
10. to me.  
11. MR. SECRETARY: I can <sup>do it if we had</sup> ~~if we've got~~ another hour ~~for it.~~  
12. MR. MITCHELL: Because <sup>... he did it</sup> ~~the steel~~ because of the politics,  
13. because <sup>of... if you will</sup> ~~fuel is~~ running at 20 percent capacity  
14. <sup>at</sup> ~~in~~ Pittsburgh, like <sup>we are</sup> in energy <sup>exploration and</sup> ~~expressing~~ devel-  
15. opment, <sup>to some</sup> ~~some~~ legislative capacity there  
16. would be <sup>riots</sup> ~~a rise~~ in Pittsburgh, that's what.  
17. MR. SECRETARY: It was a negotiated settlement with world  
18. steel producers....  
19. MR. MITCHELL: It's not as important as energy.  
20. MR. SECRETARY: It's far more complicated than you are making  
21. it out to be. And I agree with you. It  
22. MR. MITCHELL: <sup>I know</sup> ~~doesn't have the ramifications that the oil~~  
23. <sup>it's complicated.</sup> industry has. But it has a lot of inter-  
24. MR. SECRETARY: national relations ramifications that <sup>he was</sup> ~~we were~~  
25. forced into.

1. MR. MITCHELL:

I go back. If we're not <sup>a</sup> security risk, an  
economic risk, nothing is going to happen. ~~if~~  
~~they~~ don't care about the southwest, or they  
don't care about those ~~free~~ <sup>three</sup> states, or the  
industry <sup>because</sup> the security risk and  
economic risk are the most important thing.

7. MR. PARKER:

<sup>, Parker Drilling</sup>  
I'm Bob Parker. I want to make sure everybody  
heard 100,000 <sup>Wells</sup> ~~barrels~~ a year. I want to thank  
the Secretary for listening to us and <sup>hearing</sup> ~~caring~~

~~about~~ our problem, which is your problem. ~~He~~

~~And none~~ <sup>you</sup>  
~~know a number~~ of us have given ~~him~~ a solution  
~~and~~ but you haven't given us one. I think what

<sup>, Sir,</sup>  
I'm saying ~~is that it~~ could be something worse  
<sup>Import Fee</sup> ~~And~~ <sup>Esponsing an Import Fee</sup>  
than no ~~input~~. I'm not here just spouting.

Too many of my friends <sup>and</sup> ~~are~~ customers <sup>are</sup> on both  
sides of this issues as well as the govern-

ment. But in the absence of an import fee, we  
need more than <sup>a package of alternatives.</sup> ~~the fact that you all have~~

~~worked hard enough to do it~~ Now I'm going to

suggest that you give thought to some kind of

a high level mix <sup>of</sup> in your <sup>these</sup> department and ~~think~~  
<sup>gentlemen in this room.</sup>

~~this all the way through~~ We do need a solu-

<sup>; we don't have it</sup>  
tion. And it will hurt our country even more

than it will hurt us.

1. MR. SECRETARY:

2. I think <sup>saying</sup> ~~that~~ that's ~~about~~ the most true thing  
3. that <sup>has been</sup> ~~you have~~ said this morning. This report  
4. that you're bringing in <sup>manipulated</sup> ~~burning~~ it into our  
5. national security study, I think it will go a  
6. long way. We intend to do that. <sup>H</sup> But I think  
7. ~~that~~ the message ~~that~~ I need to leave with all  
8. of you <sup>is</sup> ~~is~~ you've got <sup>a lot of</sup> ~~one~~ frustrations, and it's  
9. not <sup>been</sup> ~~at~~ a good time for this <sup>industry</sup> ~~group~~. This is an  
10. Administration that cares, that is a pro-<sup>business</sup> ~~business~~,  
11. pro-productivity <sup>administration</sup> ~~administration~~, and our  
12. doors are open and ~~we~~ <sup>I'm</sup> will work with you.  
13. ~~We're~~ not coming here <sup>and giving</sup> ~~to give you~~ a good  
14. speech. These things <sup>we're</sup> ~~that we are~~ working on,  
15. we're going to continue to work on. If <sup>you</sup> ~~we~~ get  
16. more ideas, you can count on us to support  
17. them. <sup>Because</sup> ~~we~~ think this industry is important,  
18. <sup>there's a lot of</sup> ~~And that you are~~ good people. <sup>in this room</sup> ~~Thanks a lot.~~ <sup>you.</sup>  
19. <sup>Well</sup> ~~John~~ thank you <sup>very much.</sup> ~~for coming~~ this morning and  
20. bringing with <sup>your</sup> ~~you these~~ words and hearing some  
21. of the frustrations that <sup>are</sup> ~~have been~~ expressed,  
22. and answering questions. I'm <sup>just</sup> ~~just~~ delighted  
23. <sup>to have you</sup> ~~that he's~~ here. <sup>H</sup> I also want to tell you we  
24. very much appreciate the <sup>message you</sup> ~~letter that he~~  
25. brought us from the President. It's obvious  
that 40 years ago, President Truman thought ~~at~~

CHAIRMAN

MR. BAILEY:

We do appreciate  
your coming here

*National*

1. ~~let of the~~ Petroleum Council, ~~that it~~ was a  
2. good idea, and I'm delighted that the  
3. President, today, thinks likewise. We haven't  
4. ~~attempted~~ *give* ~~getton through~~ to you ~~to~~ *to* the government 40  
5. years of valuable service, ~~and~~ *and* I'm sure, and I  
6. want you to know that we're here, ~~and that~~ *ready,* we  
7. stand *ready,* willing, and able to assist in any way  
8. that we can. As you know, Mr. Secretary, the  
9. *MR. SECRETARY:* } Council has under consideration the final  
10. *Thanks, Ralph.* } report on a most important study. The study  
11. is on ~~the~~ U.S. Petroleum Refining, and John  
12. McKinley, ~~the~~ *the* Chairman of ~~that~~ Committee will  
13. now ~~give that~~ *present the* report. John....  
14. MR. MCKINLEY: *the* It's good to talk about *the* part of our industry  
15. that has no problems. Thank you, Ralph.  
16. *Before* I discuss the contents of the *Refining*  
17. *Report,* I believe you have a full report  
18. before you, *I would* ~~like~~ like to provide some back-  
19. ground on the Secretary of Energy's request to  
20. the National Petroleum Council to examine *this*  
21. *the refining industry* Domestic ~~Refineries.~~ As you may recall it was  
22. requested that the NPC conduct a study of the  
23. factors effecting *the* Domestic *Refining* in light  
24. of the time *of* frame of 1985 through 1990. The  
25. study was to update previous work *of* ~~with~~ the NPC

1. in this <sup>same</sup> ~~subject~~ area by evaluating the future  
2. refining operations and the industry's ability  
3. to meet this nation's demands for petroleum  
4. products. The Secretary further specified  
5. that this study should examine refinery capa-  
6. city changes. <sup>the projected</sup> ~~The project~~ role of the small  
7. regional <sup>refineries</sup> ~~refiner~~ as well as the environmental  
8. and regulatory impacts <sup>a</sup> ~~effecting~~ our industry.  
9. ~~The~~ The Council agreed to undertake the study and  
10. established <sup>the</sup> ~~a~~ Committee on U.S Petroleum  
11. Refining to assist in <sup>responding by the Council to</sup> ~~its finding by the~~  
12. <sup>the Secretary</sup> ~~Council~~. At the first meeting of the  
13. Committee <sup>it was</sup> ~~was~~ agreed that the analysis should  
14. focus on the <sup>capability</sup> ~~chief ability~~ of the industry to  
15. produce the required products under a variety  
16. of crude oil availability and <sup>product</sup> ~~private~~ demand  
17. scenarios. <sup>the</sup> ~~To consider the parity to~~ <sup>comparative</sup> ~~econo-~~  
18. mics, and to examine the impacts of various  
19. market forces and regulatory actions such as  
20. product imports, gasoline lead restrictions,  
21. other environmental <sup>constraints,</sup> ~~restraints~~ and taxations.  
22. The ~~Committee~~ then established a <sup>a</sup> ~~Coordinating~~  
23. <sup>Subcommittee and</sup> ~~subdivision in~~ four task force groups. They  
24. maintained a vigorous schedule <sup>of meetings,</sup> ~~dealing with~~  
25.

1. work sessions, etc., and have reached the  
2. point of presenting to the Council this final  
3. report for consideration. <sup>It</sup> This report before  
4. you represents the <sup>Consensus</sup> ~~conscious~~ of this ~~(c)~~ commit-  
5. tee. As you would expect, the industry does  
6. not have a unanimous view on every point of  
7. interpretation and analysis developed from  
8. this large body of information. The ~~(e)~~ executive  
9. ~~(s)~~ summary does, therefore, <sup>reflect</sup> ~~offer~~ alternative  
10. views and concerns shared by <sup>a</sup> significant  
11. <sup>segments</sup> ~~portion~~ of our industry without making a  
12. single precise pronouncement or forecast of  
13. exactly what is going to happen in the future.  
14. And it does not make a specific set of policy  
15. <sup>recommendations</sup> ~~records~~ and this is to be expected, <sup>in</sup> ~~the~~  
16. light of today's fast moving and often unpre-  
17. dictable national and international develop-  
18. ments. We know those developments impact our  
19. refinery industry world <sup>wide</sup> ~~wide~~. The structure  
20. of the report and the ~~(e)~~ executive ~~(s)~~ summary will  
21. enable all serious readers and users to form  
22. their own opinions and conclusions with  
23. respect to these matters. In addition to the  
24. factual data, <sup>that</sup> ~~that~~ they will have the ideas and  
25. concepts in there that represent the thoughts



1. of various segments <sup>of</sup> ~~in~~ our industry. Now, <sup>H</sup>  
2. this study does not express judgements on this  
3. all important national security issue raised <sup>by</sup>  
4. imports of <sup>light</sup> ~~like~~ products combined with <sup>the</sup> ~~a~~ shut-  
5. down of significant US <sup>/lc</sup> refining capacity since  
6. 1981. Even though the <sup>/lc</sup> study does not address  
7. <sup>this</sup> ~~the~~ National <sup>/lc</sup> security issue, it does include  
8. the important data that's relevant to such  
9. national security judgements and they will  
10. certainly be helpful to the US policy <sup>H</sup> makers  
11. responsible for reaching these decisions as we  
12. were discussing earlier as it related to crude  
13. oil production. <sup>H</sup> Now, I'd like to discuss very  
14. quickly the methodologies and assumptions used  
15. in the analysis and they serve as a basis --  
16. the methodologies and assumptions <sup>/lc</sup> serve as  
17. the basis for the report's most significant  
18. findings and conclusions. <sup>H</sup> In order to analyze  
19. the domestic refining industry's capability to  
20. produce required <sup>products</sup> ~~profits~~ under a variety of  
21. crude oil availability <sup>and</sup> ~~as~~ product demand  
22. scenarios, several study areas were evalu-  
23. ated. Initially, three simultaneous <sup>efforts</sup> ~~deposits~~  
24. were <sup>undertaken</sup> ~~undetected~~. First, the survey of the US  
25. refineries was made by contacting all the

1. refineries <sup>and receiving</sup> ~~we received~~ the data from <sup>them</sup> ~~Then~~ <sup>to</sup>  
2. determine operating capacities and utilization  
3. of process units ~~and~~ <sup>as well as</sup> the crude oil  
4. charge and <sup>product</sup> ~~price~~ yields resulting from opera-  
5. tions in the year 1984 and those which were  
6. expected for 1986 and 1988. Second, the  
7. petroleum <sup>product</sup> ~~price~~ demand scenarios were  
8. developed that couldn't <sup>result</sup> ~~resolve~~ from different  
9. business and economic environments. Now these  
10. were designed to test industry <sup>capability</sup> ~~capabilities~~  
11. The selected demands ~~which~~ were not necessarily  
12. <sup>a</sup> ~~the~~ pin point or rifle shot in what everybody  
13. thought demand was going to be. <sup>They</sup> ~~There~~ were  
14. ranges so that you could see what our industry  
15. was capable of doing. High and low demand  
16. cases were developed for ten domestic and  
17. twenty-eight foreign regions covering the  
18. period of 1985 through 1995. The statistics  
19. on the third area <sup>WUE</sup> ~~was~~ statistics on <sup>non-U.S.</sup> ~~non-US~~ free  
20. world refining and transportation facilities <sup>that</sup> ~~that~~  
21. were developed to determine their operational  
22. capacities <sup>non-US</sup> ~~non-US~~ demand, indigenous crude  
23. supply, <sup>bought up</sup> ~~bought up~~ non-US, and refining capabil-  
24. ity and utilization for all 28 of those  
25. foreign regions were <sup>covered</sup> ~~governed~~ in these

1. studies. With the information derived from  
2. those three sources, two models of the refin-  
3. ing operations were ~~left~~ <sup>developed</sup>. The first model, ~~it~~ <sup>one</sup>  
4. was used to analyze the physical capability of  
5. the US refining industry now and through 1990.  
6. The second model, ~~the model~~ <sup>of</sup> the free-  
7. world refining and transportation ~~system~~ <sup>systems</sup> was  
8. used to analyze the effects ~~and~~ <sup>of</sup> changes in  
9. world product ~~demands~~ <sup>products</sup>, mixed, light  
10. and heavy. <sup>And</sup> socio-economic conditions as  
11. they would impact the US ~~Refinery~~ <sup>Refinery</sup> Industry.  
12. ~~Now~~ <sup>Now</sup>, both the US and the World models were  
13. demand driven. They were responsive in this  
14. modeling primarily to refinery ~~transportation~~ <sup>and</sup>  
15. costs rather than to crude oil costs or ~~private~~ <sup>product</sup>  
16. prices. <sup>To</sup> construct models based on crude oil  
17. costs ~~and~~ <sup>or</sup> product prices, the ~~committee~~ <sup>committee</sup> felt,  
18. would have required arbitrary and uncertain,  
19. and certainly unreliable economic ~~consumption~~ <sup>assumptions</sup>  
20. about what the price would be two years from  
21. now. The results of the US models were com-  
22. pared with the data from 1984 operations and  
23. found to be representative of actual 1984  
24. situations. ~~Some~~ <sup>The</sup> modeling results ~~within~~ <sup>were then</sup>  
25. checked against, and supported by, the informa-

1. tion assembled from the refinery survey,  
2. asking the individual refineries ~~what~~ <sup>and</sup> what they  
3. would do. <sup>1</sup> The world model was then tested  
4. against historical patterns to <sup>E</sup> insure that the  
5. model reacted appropriately ~~reasonable~~ <sup>to or reasonably</sup> to the  
6. extreme changes and would demonstrate the  
7. flexibility and the dynamics of a world sys-  
8. tem. <sup>H</sup> Now, based on the survey results and  
9. these modeling efforts ~~and~~ <sup>and,</sup> equally important,  
10. the judgment and expertise of <sup>the</sup> many ~~studied~~ <sup>study</sup>  
11. participants that were assigned by all of the  
12. companies, and others <sup>1</sup> ~~we~~ <sup>1c</sup> reached three major  
13. findings and I'd like to identify those for  
14. you. <sup>H</sup> The first finding is <sup>that,</sup> based on the NPC  
15. ~~study~~ <sup>Survey</sup> and the modeling results, <sup>1</sup> ~~the~~ <sup>1c</sup> the US  
16. ~~Refinery~~ <sup>1c</sup> industry is approaching maximum  
17. gasoline manufacturing capacity. Motor  
18. gasoline manufacturing capability in 1988 is  
19. estimated both by the refinery model and the  
20. results submitted by the ~~studying~~ <sup>participating</sup> companies to  
21. be ~~6.6~~ <sup>7</sup> to 6.8 million barrels per day. With a  
22. maximum capability for portions of the year,  
23. seasonal, an estimated rate of 7 to 7.4  
24. million barrels. Now, for a <sup>prospective</sup> ~~prospective~~ on  
25. that ~~U.S.~~ <sup>U.S.</sup> production of gasoline during the

1. first seven months of 1986, this year, was 6.6  
2. million barrels. <sup>per day</sup> <sup>Saying</sup> <sup>say it in</sup> another way, the  
3. average <sup>of</sup> <sup>in</sup> the seven months, <sup>of</sup> 6.6, is very  
4. close to the annual estimated 1988 capacity of  
5. 6.7 to 6.8. Some participants believe that  
6. any future increase in the US demand for  
7. gasoline would be met in the traditional way  
8. through increased US <sup>ref</sup> refinery production.  
9. Others believe that the increase will be met  
10. by increased product imports. If the increase  
11. is to be met by product imports, <sup>certain</sup>  
12. policy issues are presented with respect to <sup>the</sup>  
13. geographic source of such <sup>imports</sup> ~~import~~ and the  
14. likelihood of future supply <sup>interruptions</sup> ~~disruptions~~. If  
15. such imports are from government-owned  
16. refineries, <sup>is</sup> a further issue ~~was~~ raised as to  
17. whether the price of such products may be set  
18. on a basis other than <sup>free-market</sup> ~~pre-market~~ factors. <sup>¶</sup> The  
19. second finding is that the operating rate of  
20. the US <sup>ref</sup> refining system is sensitive to the  
21. level of demand (<sup>volumetric</sup> ~~brought and metric~~ demand),  
22. and the product mix that exists both inside and  
23. outside the United States. With <sup>changes</sup> ~~changes~~ in  
24. product demand, <sup>volume</sup> or mix, any part of the world  
25. <sup>may</sup> ~~that they~~ find that as a result of <sup>maximizing</sup> ~~rationaliz~~

1. ing yields of one product, other <sup>co-produced</sup> ~~co-producing~~  
2. products may be surplus<sup>to local</sup> ~~in developing and~~  
3. demands. This type of mismatching <sup>of</sup> yields <sup>to</sup> ~~the~~  
4. product demands creates product flows to and  
5. from other markets <sup>throughout</sup> ~~through~~ the world. The  
6. study demonstrates the effects of such changes  
7. <sup>in</sup> ~~and some other~~ <sup>of the</sup> cases and deals with <sup>these</sup> ~~this~~  
8. levels of both demand and mix changes. <sup>the</sup> ~~what~~  
9. if's <sup>of those situations.</sup> ~~and that sort of thing.~~ <sup>It</sup> An increase in  
10. world product demands <sup>volumetric</sup> ~~with~~ <sup>no</sup>  
11. change in the ratio of light to heavy products  
12. should result in an increase in US <sup>Refinery</sup>  
13. through <sup>put</sup> up to the capability of the US  
14. <sup>Refinery</sup> Industry. An increase in the world  
15. wide ratio of light products <sup>and</sup> heavy pro-  
16. ducts demands with no change in the total  
17. demand or total volume would also result in an  
18. increase in US <sup>Refinery</sup> through <sup>put</sup> and <sup>are</sup>  
19. <sup>decrease</sup> ~~increase~~ in imports. The <sup>Nations</sup> outside the  
20. US <sup>would</sup> ~~which~~ in that case, need their light pro-  
21. ducts and they should consume them rather than  
22. <sup>exporting</sup> ~~export~~ them to the US. As might be expected, <sup>if</sup>  
23. the demand and mixed <sup>changes</sup> takes place only  
24. in the US market... <sup>in other words,</sup> if we are  
25. the only market that grows and we're the only

1. one that wants more light products <sup>rather</sup> than heavy  
2. products, the effect on the US <sup>1c</sup> Refinery opera-  
3. tions <sup>e</sup> would be greater than when the changes  
4. take place outside the United States. How-  
5. ever, it was also found in these cases that  
6. there is an impact <sup>on</sup> ~~of the~~ US <sup>1c</sup> Refinery opera-  
7. tions <sup>A</sup> even if the changes take place only  
8. outside ~~of~~ <sup>e</sup> the United States. If we maintain  
9. a constant body with a constant mix, <sup>1c</sup> The  
10. outside world changes, <sup>and</sup> our refinery systems <sup>A</sup>  
11. ~~is~~ <sup>are</sup> also <sup>is</sup> affected. <sup>#</sup> The third finding is that  
12. political, economic, or social actions by  
13. exporting and importing nations can change  
14. industry economics and impact world <sup>product</sup>  
15. ~~foreign~~ flow patterns and US <sup>1c</sup> Refinery opera-  
16. tions, <sup>1c</sup> Obviously, ~~this is~~ <sup>you'd</sup> pretty much what  
17. ~~they~~ <sup>they</sup> expected <sup>#</sup> to find. For the purpose of  
18. this analysis, a reference case was construc-  
19. ted <sup>where</sup> ~~which~~ tariffs and other importing <sup>and exporting</sup> con-  
20. straints were included as they existed in  
21. 1985, substantially what they are now. Refer-  
22. ence cases (inaudible). In addition, each of  
23. the <sup>refining</sup> ~~refined~~ regions, <sup>e</sup> 28 of them, outside the  
24. United States was assigned, and that means  
25. assumed, <sup>minimum refining</sup> a ~~number refinery~~ through <sup>#</sup> put

1. Reflecting the availability of indigenous  
2. crude to those 28 regions, the local market  
3. demands, and assumptions concerning non-  
4. economic social factors. <sup>by that</sup> Now, generally, this  
5. means that our men had to assume minimum  
6. throughputs of some refineries, foreign  
7. refineries, that there would be social impacts  
8. that they were quite certain would make them  
9. run those refineries at a low operating capa-  
10. city, and in other situations where reasonable  
11. assumptions were that those refineries would  
12. run at their full capacity. Now two sensiti-  
13. vity cases were tested against this reference  
14. case that we are referring to. <sup>On</sup> ~~And~~ one case,  
15. the minimum throughput, which is the  
16. assumption or the estimate of our groups,  
17. <sup>1/c</sup> Using these minimum constraints or <sup>estimated</sup> ~~destination~~  
18. throughputs for the rest of the world, <sup>if you</sup> ~~we~~ if you  
19. took those off and if they just ran economi-  
20. cally, that would result in 100,000 barrels  
21. per day decrease in the net <sup>imports</sup> ~~in force~~ to the  
22. United States. In other words, less <sup>imports,</sup> ~~input~~  
23. <sup>1/c</sup> When they ran only the refineries <sup>at</sup> ~~that had~~  
24. levels that would be economically <sup>at</sup> ~~under~~ the  
25. assumptions of the study made here. In the



1. second case it was assumed that the refineries  
2. in the Middle East and ~~in~~<sup>in</sup> North Africa were to  
3. run at their maximum capability that results  
4. in a 300,000 barrel per day increase in net  
5. ~~input to~~<sup>imports into</sup> the United States. ~~#~~ Now, to test the  
6. effectiveness of increases in US product  
7. ~~Tariffs~~<sup>1/c</sup>, presuming no ~~account of anything~~<sup>Countervailing</sup>  
8. measures by other consuming ~~measures~~<sup>nations... in</sup>. In  
9. other words, if you went through a series of  
10. studies where we increased ~~our~~<sup>1/c</sup> product tariffs  
11. ~~the~~<sup>but</sup> other consuming nations did not take any  
12. action, ~~1/c~~ It was found that in all of those  
13. situations, they resulted in varying degrees  
14. of reduced US ~~inputs~~<sup>imports</sup>. That is with higher  
15. product tariffs, we would have less imports if  
16. there were no ~~account of any~~<sup>Countervailing</sup> actions taken by  
17. others. ~~#~~ However, it was also found in other  
18. cases that should nations outside of the  
19. United States unilaterally impose products ~~and~~  
20. tariffs or other trade restraints, the United  
21. States would probably see an increase in pro-  
22. duct ~~importing~~<sup>imports</sup>. In other words, if you had  
23. tariff barriers ~~with~~<sup>in</sup> other consuming nations,  
24. the natural reaction ~~in the~~<sup>of that</sup> refining capacity  
25. would be to sell where it was attractive to

1. and that would ~~therefore~~<sup>tend to</sup> increase imports into  
2. the United States. Now that, ~~in fact~~<sup>effect</sup> would be  
3. mitigated, these models show, by imposition of  
4. US tariffs. On the other hand, if the United  
5. States initially ~~posed~~<sup>imposed</sup> the product trade  
6. restraints, other nations could respond simi-  
7. larly and it would mitigate the impact of ~~what~~<sup>whatever</sup>  
8. ~~other~~ actions we took. <sup>P</sup> In addition to these  
9. three major findings, the report addresses  
10. ~~Several~~<sup>Several</sup> other significant issues. The first of these  
11. is that measuring crude oil ~~installation~~<sup>distillation</sup> capa-  
12. city or ~~by~~<sup>for</sup> saying what's your capacity ~~of~~<sup>of</sup>  
13. crude oil ~~installation~~<sup>distillation, may</sup> may not fully describe  
14. the ability of US ~~Refineries~~<sup>Refineries</sup> to produce ~~for~~<sup>the</sup>  
15. light ~~processing~~<sup>products</sup>. Traditionally ~~our~~<sup>the capacity or</sup> capabi-  
16. lity of US ~~Refineries~~<sup>Refineries</sup> to produce additional  
17. products has been monitored by everyone,  
18. generally, by measuring the crude oil ~~relationship~~<sup>distillation</sup>  
19. capacity. To what rate will we utilize it  
20. that way? Since product demand patterns have  
21. changed, the capacity available to increase  
22. motor gasoline ~~consumption~~<sup>production</sup> is constrained by  
23. the availability of the downstream conversion  
24. ~~units, and~~<sup>units, and</sup> the octane ~~enhancing~~<sup>capabilities</sup> for  
25. refineries rather than just the idea of how we

1. can run so many barrels of crude <sup>per day</sup> ~~oil~~ <sup>R</sup> Next is  
2. that regional refineries play an important and  
3. unique role in meeting US product demands.  
4. Approximately 15 to 20 percent of the refining  
5. capacity of the United States is represented  
6. by these regional refineries. Although many  
7. <sup>of these</sup> ~~oil~~ refineries are small, they each have their  
8. <sup>niche in</sup> ~~own~~ <sup>1</sup> ~~boards~~ serving local and speciality markets,  
9. usually having minimal transportation costs  
10. for both ~~getting~~ <sup>in</sup> crude and products ~~to~~ the  
11. markets they serve. As long as those condi-  
12. tions ~~can~~ continue to exist, the regional  
13. refinery <sup>5</sup> should remain viable. The main body  
14. of this report also takes note of and indi-  
15. cates and covers the significant number of  
16. refinery closings that have occurred in the  
17. United States <sup>since 1981</sup> ~~from day one~~ and <sup>the</sup> ~~made~~ laws of  
18. employment in this industry <sup>1</sup> as a result of  
19. that. <sup>R</sup> Now, the third one is that the Los  
20. Angeles <sup>2</sup> basin refineries are subject to some  
21. unique environmental regulations. The air  
22. quality conditions in the Los Angeles <sup>2</sup> basin,  
23. in general, fail to meet the federal and/or  
24. state standards. Thus, unique <sup>1</sup> ~~commission~~ <sup>EMISSION</sup> con-  
25. trol regulations <sup>P</sup> have been imposed <sup>on</sup> ~~over~~ vir-

1. tually all major <sup>Emission</sup> ~~commission~~ sources types,  
2. which include our petroleum refineries. As an  
3. example, product specifications and refinery  
4. <sup>Emissions, Stack Emissions,</sup> ~~by Commission~~ regulations associated with  
5. ~~these in~~ the Los Angeles area <sup>refinery's</sup> ~~refineries~~ com-  
6. bustion and processing sources are certainly  
7. more restrictive than <sup>in</sup> the rest of the United  
8. States and <sup>certainly</sup> ~~even~~ more so than in the rest of  
9. the <sup>1/c</sup> ~~World~~. <sup>P</sup> It was noted that further environ-  
10. mental restraints or restrictions on product  
11. ~~volume and~~ specifications or refining facili-  
12. ties increases our <sup>industry's</sup> ~~industries~~ costs and  
13. reduces the capacity to produce <sup>products</sup> ~~by~~. Such  
14. environmental restrictions <sup>would</sup> place the US  
15. refineries at an economic disadvantage rela-  
16. tive to foreign <sup>refiners</sup> ~~facilities~~ who may not have to  
17. meet similar constraints. <sup>S</sup> ~~The~~ constraints that  
18. the <sup>Study</sup> ~~study~~ covers were, generally, limitations  
19. on <sup>Reid Vapor</sup> ~~three basic~~ pressures <sup>volatility</sup> ~~by utility~~ specifica-  
20. tions <sup>for</sup> motor gasoline; restrictions on the  
21. benzine <sup>content</sup> ~~kind~~ of motor gasoline; more strin-  
22. gent restrictions on <sup>the sulfur</sup> ~~sulphur~~ content in <sup>distillate</sup> ~~diesel~~  
23. fuel. <sup>my</sup> ~~Basically~~, this completes ~~the~~ brief review  
24. of the study's findings. I would like to give  
25. a few words of special thanks to <sup>those</sup> ~~the folks~~ who

1. did all the work in this study. I want to  
2. thank the members of the Council for providing  
3. the personnel to these study groups, and I'll  
4. certainly say you supplied highly skilled,  
5. excellent people to do this work. I want to  
6. express my appreciation to DOE and their con-  
7. siderable help in this matter. <sup>le</sup> And their com-  
8. mittment from all of these people has been  
9. outstanding. It's not possible, of course, for  
10. me to single every individual who contributed  
11. but I do wish to thank them. I would like to  
12. specifically recognize the four or five people  
13. who are here with us and I think it would be  
14. great if you all would stand up. The Govern-  
15. ment <sup>Cochairman</sup> ~~Co-Chairman~~ of the Committee, Dr. <sup>Helmut</sup> ~~Work~~  
16. <sup>Merklein</sup> ~~line~~ the Administrator of Energy Information  
17. Administration, <sup>le</sup> the Chairman of the Coordinat-  
18. ing Subcommittee, Jim Seaman <sup>le</sup> from Texaco; the  
19. Chairman of the Refinery Survey Task Group, <sup>le</sup>  
20. Lloyd Bush <sup>le</sup> ~~from~~ Ashland; and the Chairman of  
21. the Oil Supply/Demand Task Group, Roger  
22. <sup>Hemminghaus</sup> ~~Hemminghouse~~ Diamond Shamrock, <sup>le</sup> the Chairman  
23. <sup>Herb Hand of Fluor</sup> of the US Refinery Capability Task Group, <sup>le</sup>  
24. <sup>le</sup> Last from that group, the Chairman from the  
25. Worldwide Refinery Trends Task Group, John

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of  
McDonald ~~from~~ Standard Oil.

*HP* Ralph, this completes my presentation. As you know, a number of the *task force* leaders are here and the *subcommittee* chairman is here, *as I am,* they are all available *for* questioning and I would like to move that the National Petroleum Council ~~vote to~~ *adopt* the report of this Committee *on U.S. Petroleum Refining.* ~~when you specify~~

CHAIRMAN BAILEY

MR. CHAIRMAN:

Well, John, thank you very very much. And I certainly want to thank you for your remarks and *thanking* ~~thank you and thank~~ all of those who worked on this *study* ~~subject~~. *It's been a very* tedious *road* ~~role~~, I know, *lc* But the study is, indeed, very important to the Nation and very timely. *lc*

MR. MCKINLEY:

Thank you.

CHAIRMAN BAILEY:

*lc* We certainly all want to thank you for your efforts in getting the job completed. Well done, ~~thank you~~ I have a motion to adopt the draft report, subject to *final editing.* ~~finalizing~~

MEMBER:

CHAIRMAN BAILEY

MR. CHAIRMAN:

RESPONSE

MR. SWEENEY:

I second it....  
*I hear a second.*  
Is there any further discussion?  
I think ~~that~~ the study is *excellent* ~~a good effort~~, but the assumption *is* ~~is~~ there that domestic production will stay level through 1990 seems to me to be misleading in that it implies that policy *lc* makers have got four *lc* years to watch the

1. domestic industry before doing anything. In  
2. reading the report I don't see that it's  
3. important to put that statement in there, but  
4. ~~I think~~ it's a complex study and I can't  
5. follow the logic all the way through but  
6. certainly that assumption must have been made  
7. ~~before they sent the copy to the press.~~  
8. *the precipitous drop in crude prices*  
9. *would*  
10. I agree with you on that last point, I think  
11. those assumptions were made when the study was  
12. *undway*  
13. ~~on the way,~~ back in 1985. I believe that you  
14. were pointing out that in these models they  
15. were run showing the amount of US crude being  
16. substantially stable for a period, is that  
17. the point? *---*

MR. MCKINLEY  
RESPONSE:

15. *SWEENEY*  
16. MR. MCKINLEY:  
17. Well, let me be specific. In the text on page  
18. *1-31*  
19. ~~131~~ it lists...it says specifically, and then  
20. again on page *2-12* ~~212~~ and in fact in the *1* appendix  
21. *that*  
22. *if* the assumption was made that domestic pro-  
23. duction would stay at *a* level through 1990 and  
24. then decline. It just seems to me that anyone  
25. knowing, *reader* ~~they~~ would know that *must* ~~that would~~ be an  
assumption they made back in '85. But ~~not~~  
non-knowing, *a* non-expert policy maker, it seems  
to me, could be misled by that statement.

MR. MCKINLEY:  
Would you repeat  
the page number  
for us.

MR. SWEENEY:

Page *1-31* ~~131~~ and then I think that same paragraph

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MR. MCKINLEY  
RESPONSE:

that

*Oh sorry, let's*  
is repeated elsewhere. ~~Well, let's~~ take page <sup>2-12</sup> ~~212~~ <sup>212</sup>. The second full paragraph on page ~~212~~ <sup>212</sup>.  
As I was pointing out, ~~and~~ I think this is a good illustration of the point I was making ~~e~~  
~~that~~ <sup>lc</sup> What we did here was try to test our refining system and its ability to supply. We didn't try to select any one point and say, it's going to be that way. So that this study is not a precise estimate of future demands on US ~~Refineries~~. It shows <sup>their capability to handle</sup> ~~that capabilities are~~ ~~there~~ and it is not, certainly, a guarantee of what crude production would be in the US.

MR. SWEENEY  
RESPONSE:

MR. SEAMANS  
RESPONSE:

The crude assumptions were made early but this whole

MR. MCKINLEY:  
Did you have a point to add to that?

But, I think my point is...  
Well, I want to make this point. This whole ~~study~~ <sup>really sensitive</sup> of these cases were really not ~~censored~~  
to crude oil supply, per se and shouldn't prejudice that one way or the other. I think that, as Mr. McKinley pointed out <sup>earlier</sup> ~~here early~~, the cases were essentially up to the ~~permis~~ <sup>physical</sup> ~~sable~~ capability of the ~~refined~~ <sup>refining</sup> system, <sup>lc</sup> the costs of the ~~refined~~ <sup>refining</sup> systems, and the demand for ~~the~~ products, <sup>and</sup> the assumption was basically made that each ~~requirement~~ <sup>refining</sup> domestically ~~and~~ <sup>and</sup> foreign had access to crude of an acceptable quality, at what would be a



1. comparable price, competitively. It's almost  
2. essential that it be done on that basis to get  
3. at the results <sup>which</sup> we're trying to reach rather  
4. than ~~access~~ <sup>assess</sup> the availability of crude oil, per  
5. se.

6. MR. SWEENEY:  
~~DE~~

What would happen if you just left that para-  
graph out?

7. MR. SEAHANS  
8. ~~RESPONSE:~~

I think that would be nothing. It would not  
effect the report.

9. MR. SWEENEY  
10. ~~RESPONSE:~~

Okay, that's my suggestion. <sup>IP</sup> This does not

11. MR. MCKINLEY: →

deal with whether the crude oil came from the  
12. <sup>1c</sup> Eastern Hemisphere or <sup>from</sup> Canada or other places  
13. ~~or~~ (inaudible).

14. CHAIRMAN BAILEY:  
~~DE~~

John, would you agree that it probably could  
15. be cured under the final <sup>Editing</sup> ~~report~~.

16. MR. MCKINLEY:  
~~A:~~

I see no reason not to further explain that  
17. matter.

18. CHAIRMAN BAILEY —  
MR. CHAIRMAN:

<sup>Further discussion?</sup> <sup>may vote by saying,</sup>  
Okay, all those in favor ~~lots vote with an~~  
19. "AYE".

20. MEMBERSHIP:

"AYE"

21. CHAIRMAN BAILEY  
MR. CHAIRMAN:

~~ALL~~ opposed?

22. (NO RESPONSE).

23. CHAIRMAN BAILEY  
MR. CHAIRMAN:

The report's accepted. John, thank you.

24. CHAIRMAN BAILEY: }  
25.

<sup>The</sup> Council also <sup>has underway a study requested</sup> ~~not on a matter collected by~~  
Secretary Herrington on US Oil and Gas Outlook.

MR. MCKINLEY:  
Thank you for helping.

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MR. KETELSEN:

*present the interim*  
Jim Ketelsen will now ~~give the~~ report from his  
Committee and review their plans for comple-  
tion of the overall assignment.  
Thank you, Ralph. *P* I'm going to present to you  
the Interim Report for your approval, today,  
*then* and our plans for the final report in this  
area. *P* By way of background, last September,  
Secretary Herrington requested the National  
Petroleum Council to examine the factors ef-  
fecting the ~~application~~ *nation's* future supply of and  
~~the demands of~~ *for oil and* natural gas. Little did he  
~~know~~ *that* when he ~~put the request in~~ *sent* *in that* it was  
going to be prepared under the kind of circum-  
stances *that* this industry ~~is facing~~ *faces* these days,  
but that's... maybe he was clairvoyant in  
asking for the study, I don't know, but we'll  
give him that benefit. The Secretary also re-  
quested that the study examine the factors  
that precipitated the 1970s energy crisis *E*  
~~The~~ *their* financial impact on the nation's economy,  
the appropriateness of the government's re-  
sponse, and the potential for recurrence of  
such ~~crisis~~ *E*. In addition, the Council was  
asked to advise on how the vulnerability  
to future energy crisis *E* can be avoided *or* ~~and~~

1. mitigated. <sup>H</sup>To undertake this study, the Coun-  
2. cil established the Committee on US Oil and  
3. Gas Outlook. I'm pleased to have Don <sup>Bauer</sup> ~~Bower~~ as  
4. my Government <sup>Cochairman</sup> ~~Co-Chairman~~. Our Committee, as  
5. one of its first acts, established a Coordinat-  
6. ing <sup>Subcommittee</sup> ~~Committee~~ under the direction of Chuck  
7. Schultz of <sup>Tennessee</sup> ~~Pimlico~~ who <sup>in</sup> ~~aided and~~ directed <sup>ing</sup> ~~the~~  
8. overall study effort. I'm not going to let  
9. them stand up <sup>until the</sup> ~~these guys have got to work~~  
10. <sup>is done;</sup> ~~themselves to death~~ <sup>ic</sup> The final report comes  
11. in February, they can stand up after that.  
12. Economic and Environmental <sup>Impacts Task Group</sup> ~~Impact State~~ is  
13. <sup>ic</sup> ~~chaired by Jim McNabb~~ <sup>McNabb of Conoco;</sup> <sup>ic</sup> The Historical Factors  
14. Task Group is <sup>ic</sup> ~~chaired by Frank Ferrascoe~~ <sup>Yerrastro</sup> of  
15. <sup>N</sup> ~~Perzoil;~~ <sup>ic</sup> The Future Supply <sup>and</sup> Demand Factors  
16. <sup>Task Group</sup> <sup>ic</sup> ~~is chaired by John Dewes~~ <sup>Dewes</sup> of Chevron. <sup>H</sup> All of  
17. these committees have broad memberships <sup>and</sup> <sup>ic</sup> I  
18. want to thank the Council's membership for  
19. their <sup>time</sup> ~~trying~~ <sup>that they have</sup> and that of the people <sup>ic</sup> and others  
20. assigned to <sup>the</sup> ~~working~~ groups. We've had great  
21. cooperation and we're most appreciative of  
22. this, particularly <sup>in</sup> ~~at~~ this time when all of us  
23. are asked to cut back and <sup>have</sup> ~~add~~ I think, an  
24. upgraded work level as far as our own internal  
25. requirements are concerned. I want to acknow-

1. ledge the on<sup>of</sup>going help and enthusiastic co-  
2. operation ~~from~~ the Department of Energy Per-  
3. sonnel on ~~the~~ study. <sup>They've seen</sup> ~~They were~~ most active  
4. with us. <sup>At</sup> ~~But~~ the time ~~this~~ <sup>the</sup> Committee held its  
5. initial meeting <sup>deep</sup> this past April, ~~each~~ concern  
6. was expressed ~~and~~ <sup>that</sup> much of the ~~explanation of~~ <sup>exploration and</sup>  
7. ~~the~~ development sector of the <sup>the</sup> Petroleum <sup>Indus-</sup>  
8. try was being dismantled by the rapid decline  
9. ~~of~~ <sup>in</sup> the price of oil that had occurred during  
10. the previous four months. The Committee felt  
11. ~~that~~ at that time that it was imperative that  
12. an <sup>Interim</sup> Report be developed and published <sup>in</sup>  
13. this fall, which focused on the severe drop in  
14. oil prices. The Committee agreed that the <sup>Inter-</sup>  
15. <sup>the</sup> ~~Interim~~ Report would address the near-term im-  
16. pact of <sup>the</sup> prices decline <sup>on the U.S.</sup> ~~of the price of~~ oil and  
17. gas <sup>and</sup> ~~in the~~ related industries and in <sup>turn, on</sup> ~~terms of~~  
18. the economic and strategic security of the  
19. United States. It was further agreed that we  
20. would not attempt to develop options or recom-  
21. mendations in this <sup>Interim</sup> Report. In other-  
22. words, the fun is yet to come <sup>with</sup> ~~in~~ the final re-  
23. port. <sup>The</sup> The Committee also agreed that the final  
24. report, scheduled <sup>for completion</sup> ~~to be completed~~ in February  
25. of '87, would address the 1970s energy crisis;

1. ~~store~~ <sup>lc</sup> factors affecting the US <sup>lc and lc</sup> oil <sup>lc</sup> and gas  
2. <sup>lc</sup> outlook, and options for avoiding <sup>or</sup> ~~those~~  
3. mitigating US vulnerability to future energy  
4. crisis. <sup>lc</sup> ~~The~~ <sup>Our</sup> subcommittee and task groups are  
5. hard at work completing the necessary analysis  
6. for this more detailed and broader <sup>lc</sup> scope final  
7. report, which we will have drafted in December  
8. and available, hopefully, in February for  
9. final reviewing. For your information, an  
10. outline of that report <sup>lc</sup> is provided in the  
11. ~~package~~ <sup>packets</sup> in front of you, this morning. <sup>lc</sup> And  
12. now I'd like to take a brief overview of the  
13. ~~Interim Report~~ <sup>lc</sup> that ~~we're taking~~ <sup>we are to take</sup> action on  
14. today. At the outset, we set out with two  
15. general objectives <sup>lc</sup> vital <sup>the development of</sup> to this report. <sup>lc</sup> Our  
16. main objective <sup>is</sup> ~~was~~ to stick to the facts  
17. without bias as far as the situation <sup>is</sup> ~~was~~  
18. concerned. And secondly, we recognized <sup>lc</sup> that  
19. it <sup>is</sup> ~~was~~ important <sup>to be</sup> and timely and we have  
20. satisfied that by coming to you today with  
21. this <sup>lc</sup> Interim <sup>lc</sup> Report and also to keep it  
22. concise enough that those policy <sup>lc</sup> makers who  
23. have the time and the willingness to read all  
24. of it. And we ~~all~~ obviously <sup>lc</sup> also attempted  
25. in this <sup>lc</sup> Interim <sup>lc</sup> Report to prepare a unified

1. industry outlook which represents a majority  
2. of the Council's constituents. <sup>7</sup> When the Coun-  
3. cil agreed to undertake this study it was felt  
4. that ~~the~~ existing outlooks could be utilized to  
5. evaluate <sup>the</sup> key factors. It became obvious with  
6. the price <sup>declines</sup> ~~defiance~~, however, that the magni-  
7. tude of changes that had taken place we no  
8. longer had <sup>the</sup> reliable long-term <sup>projections</sup> ~~projection~~  
9. ~~This was~~ as far as the current environment was  
10. concerned. And <sup>industry</sup> ~~therefore~~ two ~~industries~~ sur-  
11. <sup>S</sup>veys were completed to back-up this <sup>interim</sup>  
12. <sup>1c</sup> Report. <sup>First, a near-term drilling survey</sup> ~~A year term village~~ outlook <sup>1c</sup> was sent  
13. to approximately 7,000 members of the Indepen-  
14. dent Petroleum Association of America and to  
15. the Society of Independent Professionals <sup>Earth</sup> ~~Oil~~  
16. Scientists. We got 1,023 responses. They  
17. have been received and summarized and are in-  
18. cluded as an appendix to the report. Second,  
19. a survey of future supply <sup>and</sup> ~~and~~ demand outlooks  
20. using two <sup>simplified</sup> ~~simplified~~ price trends <sup>1c</sup>. The price  
21. trends ~~that~~ were provided by the Department of  
22. Energy for utilization <sup>in</sup> ~~of~~ this study. <sup>2</sup> and that  
23. <sup>Survey</sup> ~~study~~ was sent to 52 <sup>1c</sup> Petroleum <sup>1c</sup> Industry,  
24. Utility ~~1c~~  
25.

1. Utility, Government, Consulting, and Financial  
2. Community Representatives. <sup>Thirty-three</sup> Briefly detailed  
3. responses were received <sup>and are</sup> ~~and we~~ summarized ~~it~~  
4. <sup>in the report,</sup> as well in Appendix C. Further data ~~and~~  
5. analysis will be included in the final reports  
6. on these surveys. Now the results of the sur-  
7. veys are intended to illustrate the impact of  
8. future oil prices on drilling activity levels  
9. and on supply and demand. <sup>#</sup> The body of the  
10. proposed Interim Report is divided into five  
11. major sections. The first being an overview  
12. ~~which~~ <sup>that</sup> briefly covers the four major ~~things~~ <sup>themes</sup>  
13. developed in the report. First, <sup>a</sup> definition of  
14. ~~vulnerability and~~ <sup>all of mobility of</sup> our past, present, and  
15. ~~dependence on imports~~ <sup>future oil reports</sup>. Second, the severe  
16. effects of lower oil prices on the industry ~~and~~  
17. ~~our future suppliers~~ <sup>supply</sup> response capabilities.  
18. Third, the effects of lower oil prices ~~on~~ <sup>and</sup> the  
19. depressed industry conditions on the nation's  
20. vulnerability to a future major energy crisis.  
21. <sup>the</sup> ~~and~~ fourth, an assessment of long-term impact  
22. of the depressed oil service <sup>and</sup> supply sector.  
23. <sup>#</sup> The second section is an introduction ~~and~~ <sup>that</sup> pro-  
24. vides background on <sup>the</sup> study of ~~depressed~~ <sup>request</sup> the  
25. ~~organizational~~ <sup>organization, and</sup> methodology in the areas that

1. I've already covered for you. <sup>HP</sup> The third sec-  
2. tion addresses the economic impacts <sup>of</sup> ~~with~~ major  
3. oil price <sup>changes</sup> ~~issues~~, covering three major areas.  
4. First, <sup>1</sup> documentation of the severe impact of  
5. the two 1970 <sup>1</sup> energy price shocks on GNP, fixed  
6. investments, <sup>and inflation,</sup> unemployment, ~~employment~~ which  
7. contributed to a major recession which  
8. followed each of these crisis<sup>es</sup>. Second, the  
9. discussion of why recent low prices have  
10. failed to stimulate the economy in a positive  
11. manner while in the past, <sup>1</sup> the rising prices  
12. have quickly depressed the economy. And,  
13. third, the documentation of the economic  
14. deterioration of the major oil <sup>producing</sup> ~~through the~~  
15. <sup>states</sup> ~~industry mistakes~~, that we're all familiar  
16. with. <sup>HP</sup> The fourth section of the report  
17. addresses <sup>supply/demand</sup> ~~supplies demand~~ responses to major  
18. oil price changes, covering four major areas.  
19. <sup>A</sup> ~~The~~ discussion of the impact of <sup>price</sup> ~~pricing~~  
20. instability of the petroleum industry<sup>e</sup>.  
21. <sup>2</sup> ~~Secondly~~, an assessment of the petroleum  
22. industry<sup>3</sup> sensitivity and response to price  
23. changes. Third<sup>ly</sup>, a discussion of the results  
24. of the <sup>IPAA/SIPES near-term drilling outlook survey.</sup> ~~IPAA and the Yukon Drilling Outlook~~  
25. ~~Study~~ At 13 dollars per barrel, <sup>1</sup> the  
respondents expect their 1990 drilling to



1. decline to 15 percent of <sup>their</sup> the 1985 level. At <sup>1/c</sup>  
2. 20 dollars per barrel, <sup>their</sup> the 1990 activity would  
3. fall to one-half of <sup>their</sup> the 1985 level. And, at 27 <sup>1/c</sup>  
4. dollars per barrel, <sup>their</sup> the 1990 activity was pro-  
5. jected to rise <sup>to</sup> about 125 percent of <sup>their</sup> the '85  
6. level. <sup>1/c</sup> The fourth thing was a discussion of  
7. the NPC <sup>1/c</sup> oil and <sup>1/c</sup> gas <sup>1/c</sup> outlook <sup>1/c</sup> survey. The sur-  
8. vey utilized <sup>two</sup> Department of Energy <sup>1/c</sup> provided  
9. price trends. <sup>1/c</sup> An upper trend of 18 dollars  
10. per barrel <sup>1/c</sup> rises <sup>1/c</sup> to 36 dollars per barrel by  
11. the year 2000, and a lower price trend <sup>which</sup> will <sup>1</sup>  
12. <sup>started</sup> start at 12 dollars per barrel rising to 21  
13. dollars per barrel by the year 2000. These  
14. prices are all in 1986 dollars. The United  
15. States reaches an oil import dependence of 50  
16. percent shortly before the year 2000 with the  
17. upper price trend, and shortly after 1990 with  
18. the lower price trend <sup>in</sup> with these surveys.  
19. <sup>Middle East OPEC</sup> They will ~~leave to OPEC~~ in the year 2000 will  
20. supply 35 percent of total non-Communist world  
21. oil consumption in the upper price trend and  
22. over 45 percent in the lower price trend.  
23. <sup>Neither</sup> Either price trend was <sup>high</sup> kind enough to stab-  
24. lize US oil and gas production. <sup>1/c</sup> The fifth and  
25. final section of the <sup>interim</sup> ~~Interim~~ Report assesses <sup>1/c</sup> <sup>E</sup>

1. the impacts<sup>1</sup> of the recent price decline ~~fore~~<sup>of</sup>  
2. petroleum service ~~in the~~<sup>and</sup> supply sectors.  
3. Again, four key areas are developed. First, an  
4. assessment of current industry employment  
5. showing ~~that~~<sup>that</sup> oil and gas extraction ~~in~~<sup>the</sup> employment  
6. has dropped 37 percent since 1982. ~~With a~~<sup>the</sup>  
7. service sector down by 51 percent. Second,  
8. ~~the~~<sup>a</sup> discussion of the loss of oil field equip-  
9. ment. Once ~~idle~~<sup>idle</sup> equipment is disposed of, the  
10. industry will be limited on ~~the~~<sup>the</sup> ability to  
11. reequip itself. Of course, you've heard com-  
12. ments in regard to that in respect to Secre-  
13. tary Herrington's speech earlier. Third, is  
14. ~~the~~<sup>a</sup> discussion of the service ~~industries~~<sup>industry's</sup>  
15. financial plight that could limit its future  
16. ability to respond to ~~the~~<sup>the</sup> increased demands ~~if~~<sup>if</sup>  
17. required. And, fourth, ~~an~~<sup>an</sup> assessment of the  
18. impact of lower prices, ~~on~~<sup>on</sup> research and develop-  
19. ment as well as the export of technology. We  
20. could ~~lose~~<sup>lose</sup> the competitive advantage we have  
21. held in many areas since the beginning of the  
22. petroleum industry. ~~¶~~<sup>¶</sup> In conclusion, we have  
23. tried to develop a concise, factual report, ~~e~~<sup>e</sup>  
24. that accurately portrays the present condi-  
25. tions faced by our industry and our nation, and

1. which sets a stage for the issues <sup>that</sup> ~~which we~~  
2. will be ~~discussing~~ <sup>discussed</sup> in our <sup>1c</sup> ~~Final~~ <sup>1c</sup> Report. <sup>H</sup> Mr.  
3. Chairman, we look forward to presenting our  
4. final report for the Council's consideration  
5. early next year, and I now move that this  
6. <sup>1c</sup> ~~Interim~~ <sup>1c</sup> Report of the <sup>Committee on</sup> U.S. Oil and Gas Outlook  
7. be adopted by the Council, <sup>1c</sup> ~~Subject~~ <sup>1c</sup> to final  
8. editing.

CHAIRMAN BAILEY  
MR. CHAIRMAN:

9. Jim, thank you very much. <sup>H</sup> I have a motion to  
10. adopt the ~~drafted~~ <sup>1c</sup> ~~Interim~~ <sup>1c</sup> Report, subject to  
11. ~~the~~ final editorial revision. <sup>1c</sup> ~~do~~ I have a sec-  
12. ond?

13. RESPONSE:

CHAIRMAN BAILEY  
MR. CHAIRMAN:

MR. SWEENEY  
RESPONSE:

13. Second.  
14. ~~Discussion?~~ <sup>Is there any discussion?</sup>  
15. I'm a little uncomfortable with that lower  
16. price trend. <sup>1c</sup> ~~If~~ <sup>1c</sup> I read it right, we're saying  
17. that we're going to ask <sup>OPEC</sup> ~~OPEC~~ in 1995 to supply  
18. 32 million barrels at the price of 17 dollars.  
19. <sup>1c</sup> ~~and~~ <sup>1c</sup> the last time that <sup>OPEC</sup> ~~was~~ <sup>OPEC</sup> was called on  
20. to supply 31 million barrels, <sup>the price, in '86</sup> ~~and priced at 18~~  
21. <sup>would be</sup> ~~dollars, was a good bit~~ higher than 17. <sup>1c</sup> ~~18~~  
22. seems to me that you're forcing an answer with  
23. that constraint on price. I <sup>can</sup> ~~could~~ visualize  
24. it starting at 12 but if it does start at 12,  
25. it would seem to me that the....

MR. KETELSEN

RESPONSE:

The price wasn't given by the Department of Energy. <sup>1</sup> ~~that~~ <sup>trying to figure</sup> that was something ~~that~~ we spent a lot of time ~~figuring~~ out how we could get ~~at~~ a price scenario that we could utilize for a study of demands <sup>and</sup> and supply ~~and~~ availability. Again, <sup>as</sup> ~~they asked~~ with John's study, it does not say that's what's going to happen. It says that here is a supply and demand availability at this price range.

MR. SWEENEY

RESPONSE:

Well, with all due respect, my opinion is that it's generating <sup>unrealistic numbers.</sup> ~~me~~ I'd just ask you to think about it; think about it and review it.

Garbage in - garbage out, that what I think we're getting here.

CHAIRMAN BAILEY

MR. CHAIRMAN:

<sup>It really isn't garbage.</sup>

<sup>1</sup> ~~You know~~ you have to develop some price

assumption as a reaction to that price and

there isn't any <sup>attempt</sup> ~~independent~~ here, nor could we

with any precision at all, predict what those

prices will be. You have to take some price

scenario and then make the demand calculations

and you have a high/low demand <sup>case</sup> ~~and~~ and somewhere

within that fairway is where we'll likely find ourselves.

MR. KETELSEN

RESPONSE:

What we have here, you recognize, we sent out a survey that said <sup>if</sup> ~~the~~ prices is this, what's

1. going to happen? This is a summary of what  
2. ~~respondents~~ 33 ~~responses~~ said was going to happen.  
3. ~~RESPONSE:~~ *It isn't that* <sup>the</sup> ~~the~~ Committee, itself, <sup>even that's projecting</sup> ~~projected~~ that kind of  
4. number. That's what the majority of <sup>the people</sup> ~~those~~  
5. responding to the survey said would happen  
6. under those <sup>price ranges</sup> ~~prices~~. They didn't have <sup>the</sup> ~~an~~  
7. opportunity to vary the price, <sup>that a</sup> ~~it was~~ given in  
8. the survey.  
9. MR. WILLIAMSON: <sup>Chick</sup> ~~Chip~~ <sup>with L & E.</sup> ~~Williamson,~~ <sup>Jim's report</sup> I think that that's a  
10. good report and one that the Council should be  
11. very proud of <sup>to</sup> ~~and~~ submit ~~it~~ <sup>as you mentioned earlier, as</sup> to the Secretary, ~~and~~  
12. hopefully, they will ~~deliberate~~ <sup>to</sup> ~~how do we get~~  
13. ~~around~~ <sup>to</sup> make the best of the world <sup>we're in</sup> ~~winnings~~  
14. today, <sup>this will be of help to them.</sup> I think the quality and the timeliness  
15. of this data <sup>and the</sup> ~~have~~ conclusions <sup>make it</sup> ~~that might be~~  
16. imperative that not only does it stay in the  
17. public arena but that it stays at a level that  
18. <sup>the work</sup> ~~it~~ deserves. It seems to me that one of the  
19. things that we should be as sure as we can ~~we~~  
20. ~~and that~~ <sup>whether</sup> is that we've done those things <sup>in</sup>  
21. the verbiage or whatever, that <sup>if</sup> ~~insures~~ that  
22. continuing level of public awareness <sup>of</sup> ~~to solve~~  
23. the problem.  
24. CHAIRMAN BAILLY: <sup>Sir?</sup> ~~Sir~~ <sup>Henry</sup> ~~I'm H. E.~~ Keplinger, <sup>in that regard,</sup> I'd like to see more  
25. of a sense of urgency, maybe, in the report.

1. We discussed this a little bit in the second  
2. meeting. I was just at the Society of Petro-  
3. leum Engineers' meeting yesterday, and there is  
4. a lot of new information so <sup>that</sup> maybe we <sup>could</sup> ~~can~~ try  
5. to review some of the data before the final  
6. report. <sup>But, I see these</sup> As you see the numbers of engineers  
7. going from <sup>12,000</sup> ~~1,200~~ to <sup>and</sup> ~~2~~ 1,000 in a statement  
8. that we maybe losing capabilities in the  
9. industry. So we look at the <sup>SPE.</sup> ~~the~~ there's a lot  
10. of new information that has come out just in  
11. the <sup>last</sup> ~~past~~ few months. [Well, obviously, as we  
12. move towards the final report if it is  
13. pertinent, we will incorporate it.]  
14. **MR. KEPLINGER** <sup>Jim,</sup> If somebody, <sup>as</sup> I have, I've gone out <sup>as</sup> and  
15. **RESPONSE** <sup>a distinguished lecturer this last year.</sup> ~~interviewed on these lectures and~~ I've talked  
16. to 60,000 people in this industry; I've  
17. walked the streets <sup>of</sup> every <sup>oil</sup> ~~rural~~ town and,  
18. <sup>that is writing the final report,</sup> somebody <sup>has</sup> ~~has~~ I'd like for them to go and  
19. <sup>Chuck or</sup> stand in line <sup>at the unemployment office</sup> and ~~see~~ where the money <sup>for</sup> ~~from~~ the  
20. <sup>in either Lafayette,</sup> unemployment is being <sup>doled</sup> ~~driven~~ out. Just take a  
21. <sup>New Orleans, or</sup> few minutes before you draft <sup>that</sup> up your final  
22. <sup>Houston</sup> report so that you really have a feel for the  
23. devastation that has hit this industry. ~~And~~  
24. <sup>that's</sup> what I'd <sup>kind of</sup> like to see because,  
25. <sup>if you</sup> use statistics <sup>that are</sup> ~~every~~ six months, ~~and in~~ nine

1. months then I don't think that the report  
2. will deserve the credit that it <sup>certainly</sup> does deserve.  
3. You've done a great job, but if you go out and  
4. actually see, walk through ~~the cameras, help~~  
5. ~~ing~~ and see what's happening <sup>to these industries</sup> within your  
6. ~~industry~~ then I think that <sup>the</sup> people <sup>that are</sup> will be far  
7. ~~more~~ responsible for <sup>writing</sup> providing the reports,  
8. ~~then~~ their attitudes might be <sup>improved</sup> better.

8. → MR. MILLER  
9. RESPONSE:

10. Mr. Chairman, we heard the Secretary say this  
11. morning that he had had great input of infor-  
12. mation but he's looking for an answer. <sup>And</sup> ~~But~~  
13. then you refer to the fact that it is in our  
14. charge <sup>if</sup> ~~and~~ we're <sup>not</sup> trying to come up with a

15. specific answer, which I certainly agree with,  
16. and I also want to commend the <sup>(3)</sup> committee on  
17. the work that they've done. I did raise some  
18. questions in Houston, <sup>as</sup> ~~which~~ you may recall. I  
19. would like to address the point that has been  
20. raised by a couple of people earlier this  
21. morning, <sup>16</sup> And make a suggestion, if I may. <sup>PI</sup>  
22. I would like to suggest for those of you that  
23. have a copy of the paper in front of you that  
24. on page 4 of the overview <sup>in</sup> ~~is~~ the closing  
25. sentence that now reads, <sup>"all of</sup> ~~all~~ this could  
26. seriously <sup>a</sup> effect our strategic and national

27. MR. KETELSEN:

28. Yes. On fact, if you  
29. have some -- you said  
30. you had them in your  
31. briefcase, why drop  
32. them off. Will take  
33. them and go from there.

1. security as ~~far as~~ <sup>will our</sup> ~~our~~ economic stability. <sup>"could"</sup> <sup>^</sup>  
2. I propose that ~~it could~~ be deleted and changed  
3. to "~~will~~" and I would like to add a closing  
4. sentence. <sup>^</sup> <sup>^</sup> And I suggest that the sentence be  
5. thus:

6.  
7. "THE IMMINENCE AND GRAVITY OF THIS NATIONAL  
8. ENERGY VULNERABILITY MANDATES THAT THE  
9. NATIONAL PETROLEUM COUNCIL REQUEST THE SECRE-  
10. TARY OF ENERGY TO CONVEY THE URGENCY OF THE  
11. SITUATION TO THE ADMINISTRATION, THE CONGRESS,  
12. AND THE AMERICAN PEOPLE." <sup>^</sup>

13.  
14. The purpose of the request is that I think  
15. that it is recognized that no proposed action  
16. has any chance of success unless the Adminis-  
17. tration and the Congress come to grips with  
18. what the situation really is and unless that  
19. <sup>conveyed out to</sup> <sup>in order</sup>  
is ~~made up of~~ the American people, ~~and~~ that

20. <sup>that</sup> <sup>^</sup> initiative be started it cannot, in my estima-  
21. tion, start within the oil and gas industry.  
22. And, I would like to move that your report ~~be~~ <sup>to</sup>  
23. amended to include the word change that I have  
24. suggested and to include <sup>this</sup> <sup>as</sup> the sentence ~~that~~ <sup>is</sup> a  
25. closing sentence of the <sup>overview</sup> ~~author~~.



1. RESPONSE: Second.

2.

3. *MR. KETELSEN*  
RESPONSE: I think you've got a motion?

4. *CHAIRMAN BAILEY*  
~~MR. CHAIRMAN:~~ You're the *chairman*, would you like to *comment* ~~go~~

5. *on* along with the recommendations? ~~The~~ request *goes*

6. *MR. KETELSEN:*  
*my initial reaction*  
*to that is that the* ~~is~~ beyond what the ~~provide~~ *DELIVER* of the request to

7. *←* us was. I think we're... I think the National

8. Petroleum Council has, or can address that

9. *in terms of telling*  
*him what to do with*  
*it.* issue as a separate issue. I suspect that its

10. not germane to this particular report ~~the~~

11. ~~RESPONSE~~ He asked us for a report, he didn't ask us to

12. tell him what to do with it.]

13. *CHAIRMAN BAILEY*  
~~MR. CHAIRMAN:~~ My reaction is the same. I don't believe that

14. the NPC can engage itself deeply *in* the

15. political ~~problem~~ *process*. This is not a lobbying

16. organization. We deal with the facts as we

17. see them, and *WE assemble* ~~with some of~~ those facts, and we

18. present them to the Secretary, *and* ~~it~~ *then* will be

19. his job *then* to decide what he does with them.

20. Now, having said that, we have a proposal ~~one~~

21. ~~the floor~~ for amendment and a second. All of

22. those in favor, say "AYE"

23. MEMBERSHIP: "AYE"

24. *CHAIRMAN BAILEY*  
~~MR. CHAIRMAN:~~ Those opposed *say "No."*

25. MEMBERSHIP: "NO".

CHAIRMAN BAILEY

1. MR. CHAIRMAN:

I think the amendment carries, <sup>We</sup> and we will have to  
2. take that into account when we draft the final  
3. report.

4. MR. KETELSEN:

We will <sup>^</sup>thank you.

5. MR. PRUDER

RESPONSE: Harold Runn

Jim, this is now one of three reports that is  
6. due, and, unfortunately, we're going to... not  
7. one of three that we have, but the API and now  
8. the Congressional Committee and <sup>Everyone is</sup> ~~every sitting~~  
9. <sup>Studying the same</sup> ~~in on the~~ energy crisis and problems. It seems  
10. <sup>at the</sup> that meeting next week <sup>of the Coordinating</sup> ~~is coordinated~~ subcom-  
11. <sup>the theme gets</sup> mittee ~~is~~ broaden, other than coordinating  
12. <sup>the task groups are</sup> what ~~they have been~~ doing, looking at what  
13. other studies have reported. What plans do you  
14. have to work out that coordination with the  
15. <sup>Other studies</sup> ~~study~~ on the impact...?

MR. KETELSEN

16. RESPONSE:

I think we will be bringing them into the  
17. degree ~~that~~ we can. And, obviously, one of the  
18. <sup>questions that was</sup> ~~presents of~~ this whole process <sup>that will be</sup> ~~that~~ <sup>it is,</sup>  
19. <sup>raised about</sup> ~~coming in February~~ <sup>is</sup> that as a final report,  
20. linked towards the President's <sup>^</sup> requested study  
21. that's due on the whole issue in the middle of  
22. December. <sup>^</sup> And our answer to that is that the  
23. Department <sup>of Energy</sup> ~~and John~~ are going to be involved  
24. in the <sup>^</sup> final <sup>^</sup> report development and we will  
25. have a draft of the final report available <sup>and</sup> ~~in~~

1. the Department will have that draft of the  
2. final report even though it isn't final.  
3. They will have the <sup>data</sup>~~draft~~ and the information  
4. available to them for consideration <sup>in</sup>~~for~~ their  
5. report as far as the President's request is  
6. <sup>concerned</sup>~~concern~~. But all the facts that we've  
7. gathered and all the data will be in their  
8. hands and it will be available <sup>for</sup>~~for~~ them to  
9. utilize in consideration of the final report  
10. that <sup>they</sup> have to give in December. I think that  
11. that <sup>helps</sup>~~comes~~ from a timing standpoint.  
12. CHAIRMAN BAILEY  
13. MR. CHAIRMAN: Any further discussion? <sup>?</sup>  
14. MR. WRIGHT <sup>Mike Wright</sup> RESPONSE: I'd like to talk for two or three minutes  
15. about the overall energy situation, <sup>rather</sup>~~rather~~  
16. than this specific point that is in the  
17. report. <sup>P</sup> I think all of us will remember back  
18. in 1980 we had <sup>an</sup>~~a~~ Act passed which ~~was to~~  
19. encourage <sup>the</sup>~~the~~ development or the exploration  
20. of research and development of alternate fuel  
21. use. I'm talking about synthetic fuels <sup>from</sup>  
22. <sup>tar sands,</sup> coal ~~and~~ all of these possibilities, <sup>and</sup> we  
23. did run the course, I guess, of putting a <sup>lot of</sup>  
24. amount ~~of~~ money in <sup>to</sup> some <sup>plants. It</sup> ~~plane~~ it didn't  
25. turn out to be economic relevant to the ~~some~~  
<sup>current</sup> ~~some~~ price of oil, <sup>the and so forth,</sup> but the whole situation has

1. shut ~~P~~<sup>down</sup>, now. And that kind of energy is  
2. still in this country. The coal is still  
3. there, <sup>tar sands are still there,</sup> and <sup>shale oil</sup> ~~and the shell-oil~~ is still  
4. there. And I wonder if it might not be a fea-  
5. sible thing to ask the Secretary to reevaluate  
6. <sup>this</sup> ~~the~~ situation. Because we know <sup>suspected</sup> ~~we~~ a lot of  
7. us ~~accept~~ that it wasn't very well done inso-  
8. far as ~~the~~ research and the <sup>plants</sup> ~~plans~~ were  
9. concerned. But then, if we're going to keep  
10. this country at all self-sufficient, for <sup>the</sup> ~~a~~ the  
11. long, long-term, <sup>will going to</sup> ~~then we~~ have to get back to  
12. these kinds of subjects, I think. <sup>H</sup> Now,  
13. another piece of it <sup>this,</sup> ~~is~~ that coal, <sup>which</sup> ~~are~~ we all  
14. know has more <sup>enough</sup> ~~in~~ it in this country than the  
15. whole of <sup>the</sup> ~~oil~~ in the Persian Gulf. Now,  
16. nothing specifically is being done, to my know-  
17. ledge, <sup>towards an</sup> ~~for the~~ increased use of coal. The  
18. forecasts <sup>don't</sup> show anything. But I think  
19. that coal needs to have some attention and  
20. there's a lot of things going against it, but,  
21. at the same time, coal is available in this  
22. country. <sup>there</sup> are things that can be done with  
23. it and I think by now <sup>about</sup> 60 percent of our  
24. power plant fuel is coal, <sup>now</sup> ~~but~~ <sup>then</sup> I don't <sup>see any</sup> ~~think~~  
25. <sup>that shows it's</sup> ~~the~~ forecast ~~for sure~~ <sup>is</sup> going to be increas-

1. ing, <sup>And</sup> in ~~coal~~ <sup>so</sup> I think coal needs some  
 2. attention <sup>for the</sup> on a long term basis.  
 3. The things <sup>that</sup> we're talking ~~about~~ in our  
 4. report, here are relatively short-term things  
 5. and some of these things <sup>could</sup> ~~are~~ probably be ~~ing~~  
 6. done with more force, let's say, if they... <sup>if</sup>  
 7. the government had a long <sup>term</sup> policy in  
 8. <sup>so far as</sup> ~~support of~~ what do we do when oil runs out, or  
 9. down the road someplace <sup>it's going to</sup> ~~employment will~~ be  
 10. declining, <sup>no</sup> ~~without~~ question. And so I think  
 11. that's something that probably would bear some  
 12. further attention. <sup>And</sup> then we have <sup>nuclear</sup> ~~nukes~~.  
 13. This is another thing that we got into at the  
 14. same time. As <sup>we</sup> know, <sup>nuclear is</sup> ~~nukes are~~ dead right  
 15. <sup>there's no applications for plants. But</sup> now, <sup>while</sup> that kind of <sup>energy</sup> ~~thing~~ is out there and <sup>sooner</sup>  
 16. <sup>or</sup> later <sup>I think</sup> we're going to have to get into  
 17. it. <sup>When</sup> we think about the oil industry.  
 18. <sup>And I think this is something else we might suggest to the Secretary</sup> <sup>you might still</sup> there are considerable areas that ~~we must~~ call  
 19. virgin territory. <sup>But</sup> I think the government might  
 20. well take a look at what <sup>could</sup> ~~can~~ do in order  
 21. to encourage exploration in these <sup>virgin</sup> territories  
 22. such as Alaska, off <sup>shores</sup> ~~in~~ the Arctic, off-  
 23. shores <sup>in</sup> California, which is one of the <sup>our</sup> ~~real~~  
 24. potentials in this country which is having a  
 25. difficult time, and the <sup>But Coast</sup> ~~South Pole~~. As well  
<sup>Big oil reserves have been found but, at the current prices, why you can't afford to go out and explore offshore in the Arctic, let's say, or in the Arctic at all. You know, if you get a finding cost of 15-20 dollars or so, why, as far as that, why you're into real big money.</sup>

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as government lands on <sup>are</sup> shore which ~~is~~ being  
*Shut off to exploration. But <sup>a place</sup> ~~left~~ everywhere I go, people say to me,*

*Will,* what

do you want to do, and so forth. Well, <sup>this</sup> ~~is~~ what I've come out with <sup>in saying that we might</sup> ~~something that you~~  
*will cross that bridge in this fashion.*  
~~might well come up with~~

CHAIRMAN BAILEY  
MR. CHAIRMAN:

Well, Mike, I thank you very much. I certainly  
will be happy to convey those thoughts to  
Secretary, too bad he had to leave but I'll  
see to it that he does have benefit of your  
thinking as to coal. ~~As~~ you may or may not  
know a National Coal Council has been formed,  
and they have the obligation of seeing to it  
that the <sup>Department</sup> ~~department~~ is well informed in that  
area. ~~Though~~ <sup>And</sup> we thank you for your comments.

*P* Any further discussion on the motion ~~that~~ we  
have on the <sup>interim</sup> ~~interim~~ report?

*P* Okay, all of those in favor of adoption, say  
"AYE"?

MEMBERSHIP:  
CHAIRMAN BAILEY  
MR. CHAIRMAN:

"AYE".  
~~OPPOSED?~~

(NO RESPONSE)

MR. CHAIRMAN:

Jim, thank you very very much. *P* The Finance  
Committee met yesterday to <sup>review</sup> ~~view~~ the status of  
the <sup>Council's</sup> ~~operating~~ budget for 1986 and <sup>to</sup> ~~consider~~ a

1. budget for 1987. For your information, the  
2. membership <sup>of</sup> ~~and~~ the Committee is listed on the  
3. roster in the packets in front of you.  
4. John Hall <sup>but</sup> ~~and~~ chaired the meeting yesterday <sup>and</sup>  
5. is unable to be with us this morning. He's  
6. asked John McKinley to present the Committee's  
7. report on his behalf. John.  
8. MR. MCKINLEY: The Finance Committee <sup>did</sup> ~~did~~ meet yesterday to  
9. review the financial status of our Council.  
10. We reviewed the calendar year 1985 financial  
11. statements <sup>with</sup> ~~to~~ the representatives of <sup>Arthur</sup> ~~Arthur~~  
12. Young and Company, they are the Council's  
13. independent outside auditors. We also looked  
14. at and reviewed the expenditures and receipts  
15. for the first nine-months <sup>of</sup> ~~in~~ the calendar year  
16. of 1986, <sup>and</sup> ~~and~~ I'm pleased to advise you that the  
17. financial position of the Council remains  
18. sound and the accounting control and  
19. procedures received excellent remarks from  
20. Arthur Young. The <sup>(3)</sup> ~~Committee~~, in the course of  
21. this meeting, did question and examine the  
22. auditors both in <sup>the</sup> ~~in~~ presence and the absence of  
23. the management of our Council and satisfactory  
24. answers were <sup>obtained to</sup> ~~paid~~ all those ~~in~~ <sup>in</sup>quiries. <sup>We</sup>  
25. then discussed a budget for the calendar year

1. *a budget in the amount*  
2. 1987, <sup>we</sup> ~~are~~ recommending ~~an account~~ of  
3. 1,245,000 dollars for your approval. This is  
4. included <sup>the</sup> ~~in~~ funds to complete the US Oil  
5. and Gas  
6. Outlook <sup>the</sup> study that Jim was just discussing  
7. with you and provides <sup>if requested</sup> funds for one additional  
8. study. I would like to point out that this  
9. proposal of the 1987 budget is approximately  
10. 10 percent less than <sup>in</sup> the calendar year 1986 of  
11. which our budget is 1,830,000 dollars. That  
12. we are down over the two years and our total  
13. expenses are <sup>budgeted</sup> about 22 percent. ~~There are~~ <sup>The</sup>  
14. recommendations for the members' contributions  
15. to support such a budget will be made at our  
16. Spring meeting, which is <sup>the</sup> usually ~~the way that~~  
17. that's handled. Finally, the Finance  
18. Committee recommends that ~~the~~ <sup>to</sup> Arthur Young and  
19. Company be employed ~~and~~ continue as our  
20. independent public accountants for examination  
21. of the 1986 financial status, <sup>and</sup> ~~charges~~ <sup>their</sup> to ~~the~~ <sup>US</sup>  
22. for last year <sup>was</sup> ~~was~~ approximately 12,000 dollars.

22. Thank you Mr. Chairman.  
23. *CHAIRMAN BAILEY* <sup>Thank you, John.</sup>  
24. ~~MR. CHAIRMAN:~~ <sup>Do I have a motion to adopt the Finance</sup>  
25. <sup>Committee's Report?</sup> <sup>report of the</sup>

25. RESPONSE: ~~I make a motion~~ <sup>So motioned.</sup>  
*CHAIRMAN BAILEY:* <sup>Second?</sup>  
RESPONSE: <sup>Seconded.</sup>



1. ~~CHAIRMAN BAILEY~~  
~~MR. CHAIRMAN:~~

All in favor, <sup>say</sup> "Aye."

2. MEMBERSHIP

"AYE".

3. ~~CHAIRMAN BAILEY~~  
~~MR. CHAIRMAN:~~

Opposed?

4. (NO RESPONSE)

5. ~~CHAIRMAN BAILEY:~~

*The report is adopted. Thank you.*

6. ~~Record it in the documents.~~ <sup>#</sup> I must say that

7. the Council members ~~that~~ support the NPC

8. operations <sup>in</sup> two ways. One through the

9. dedication of many hours of their time and

10. expertise and <sup>that of their</sup> the company personnel <sup>on study</sup> and ~~steady~~

11. efforts, <sup>(3)</sup> those of you who participate in <sup>studies</sup> ~~study~~

12. ~~efforts~~ like this know, really, how much goes

13. into ~~performing these~~ efforts and just how

14. much they cost. The cost runs far beyond

15. what the Council itself puts into it. <sup>But</sup> ~~The~~

16. contributions by the companies make <sup>the cost</sup> ~~it~~

17. <sup>of such a report</sup> ~~possible because these reports~~ run literally

18. into the millions. And so I want to thank

19. each and every one of you for your continued

20. support <sup>of</sup> the Council.

21. <sup>#</sup> The final report this morning is <sup>from</sup> ~~on~~ the

22. Nominating Committee and the Chairman is

23. here, <sup>Chandler</sup> ~~Collis~~.

24. MR. CHANDLER: Thank you, Mr. Chairman. <sup>#</sup> The Nominating

25. Committee of the National Petroleum Council

1. met this morning and they agreed upon the  
2. following nominations for Officers,<sup>e</sup>

3. ~~\_\_\_\_\_~~ ~~\_\_\_\_\_~~  
4. ~~\_\_\_\_\_~~ ~~\_\_\_\_\_~~  
5. For Chairman, <sup>and</sup> Members of the Agenda and  
6. Appointment Committees <sup>For</sup> ~~Mr. Chairman~~, it  
7. pleases me, <sup>Mr. Chairman</sup>, ~~that~~ ~~to announce that~~ we are  
8. renominating you, and the same thing for Mr.  
9. Cox, <sup>here</sup> on my right.

10. ~~For~~ <sup>the</sup> ~~Members of the Agenda Committee:~~ John  
11. Bookout, Bill Carl, John Carver, ~~Gellie~~  
12. ~~myself~~ <sup>Hubie</sup> ~~Ghandler~~, ~~Mr. Clark~~, Fred Hartley, George  
13. Keller, John McKinley, <sup>Frank McPherson</sup> ~~Franklin Pierson~~, Dick  
14. ~~O'Shields~~ <sup>and</sup> ~~Roshoto~~, A.V. Jones, serving as Chairman.

15. ~~For~~ <sup>the</sup> ~~the~~ ~~Appointment Committee,~~ <sup>the</sup> nominations are  
16. as follows: Jack Allen, Lod Cook, David  
17. Doren, Jim <sup>Emerson</sup> ~~Emerson~~, John <sup>Hall</sup> ~~Paul~~, Fred Hamilton,  
18. John <sup>Hawn</sup> ~~Pod~~, Dick <sup>Morrow</sup> ~~Morell~~, William <sup>Boone Pickens</sup> ~~Dickins~~, Don  
19. <sup>Sim</sup> ~~Simons~~, and Ted Burtis serving as Chairman.

20. ~~Mr. Chairman~~ <sup>this completes the</sup> ~~that concludes our~~ report, and I  
21. <sup>that</sup> ~~move~~ the Council elect <sup>the ongoing for</sup> ~~it before going on into~~  
22. 1986.

23. CHAIRMAN BAILEY  
MR. CHAIRMAN: All those in favor, say "Aye"

24. MEMBERSHIP: "AYE".

25. CHAIRMAN BAILEY: Do I have a second?  
RESPONSE: Second.

CHAIRMAN BAILEY: Opposed?  
(No Response) 86

1. ~~CHAIRMAN BAILEY~~  
MR. CHAIRMAN: Thank you.  
2. I will be pleased to serve another term as  
3. your Chairman. ~~Thank you~~ <sup>P</sup> As to the next  
4. meeting, it will ~~keynote~~ <sup>key off</sup> Jim Ketelsen's  
5. Committee's Report. It is apparent that there  
6. is a great deal of work planned for the  
7. next several months to complete ~~the~~ <sup>this</sup> study and  
8. bring it before ~~you~~ <sup>you for</sup> consideration. Jim has agreed  
9. to what I think is a very, very tight ~~and~~ <sup>time</sup>  
10. ~~cramped~~ schedule, but the urgency of the  
11. situation has been expressed here several  
12. times this morning. And I think that it's  
13. imperative that he do so. So we will ~~turn to~~  
14. <sup>prepare for</sup> the report of the study and ~~turn~~ <sup>set</sup> the date of  
15. our next meeting <sup>Council for</sup> early next year. <sup>P</sup> ~~For~~ <sup>Will</sup> that,  
16. ladies and gentlemen, brings us to the end of  
17. our formal agenda for this morning. <sup>P</sup> Does any  
18. ~~Council~~ <sup>formal</sup> member have any other matters to raise  
19. ~~(No Response.)~~ at this time? <sup>P</sup> Does any non-Council member  
20. ~~(No Response.)~~ have any matter to raise?  
21. <sup>Will, then</sup> On that, may I have a motion to adjourn?  
22. RESPONSE: Motion to adjourn.  
23. ~~CHAIRMAN BAILEY~~  
MR. CHAIRMAN: Thank you very much.  
24.  
25.

12:00 pm